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Essentials of Distribution

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by

Paul D. Converse

Professor of Business Organization and Operation, University of Illinois; Author of Marketing Methods and Policies, Selling Policies, The Elements of Marketing, etc.

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To My Former Teachers

C. J. H.

G. D. H.

and through Them to the Teachers of America

Preface

THIS volume attempts to condense and simplify the principles of market distribution for the use of students beginning the study of distribution and of persons engaged in business who want a comprehensive view of the field of distribution. It contains a discussion of distribution costs, distribution functions, distribution of selected commodities, the operations of various types of middlemen, and the principles of merchandising, salesmanship, sales management, and advertising. The treatment of so many subjects in a volume of this size requires that each be discussed briefly. It is hoped, however, that the material presented will give the reader a clear picture of the ground covered and perhaps stimulate him to further study in the field.

PAUL D. CONVERSE

Contents

Chapter 1

Meaning and Cost of Distribution

Interest in marketing.—Distribution, or marketing, is now the most important part of business. Most business concerns can produce many more goods than they can sell at a profit. "Give us sales!" is the common cry of business men, and huge sums are spent on advertising and salesmanship. "Whatever can be sold can be made." "There is no longer a problem of production. The big problem today is distribution." Such statements are common and may be accepted as generally true, although there are exceptions.

This condition has not always existed. Up until comparatively recent times, the big task of the race was to produce enough goods—food, clothing, and shelter—to satisfy its needs. This problem has been altered during the past 150 years by the use of labor-saving machinery; by the discoveries and inventions of chemistry, agriculture, physics, and engineering; and by the development of scientific management and accounting.

The development of the natural sciences and the arts of physics, entomology, geology, chemistry, management, and engineering has given us much new knowledge. This knowledge has enabled us to increase greatly the output of goods and to reduce the costs of production. The result is that we are now able to produce many more goods than the consumers are able to buy at the prevailing prices. Hence business men and farmers have become greatly interested in distribution. They wish to find

buyers for their products and to increase the consumption of their goods.

Distribution a part of business.—Business is divided into two parts—production and distribution. Production, in its business meaning, has to do with the creation of goods. Distribution, or marketing, has to do with moving these goods from producers—factories, mines, and farms—into the hands of the consumers.

Distribution includes buying, selling, advertising, transportation, and warehousing. The corner grocer, the drug store, the chain store, the department store, the mail-order house, the wholesaler, the railroad, the grain elevator, the milkman, the livestock shipper, and the public warehouse are engaged in distribution.

Market distribution a part of economics.—Economics has to do with the way we make a living and the way we live. For the purpose of this study, economics is divided into production, distribution, and consumption. Production, in the economic meaning, consists in the creation of utilities—things which satisfy human wants.

The chief utilities are form, place, time, and possession. Form utilities comprise goods and services. Bacon, washing machines, radios, airplanes, hats, dental service, and pictures are examples of form utilities. Place utilities are created when these goods are taken from the place of production to the place where they are to be consumed. Time utilities are created when these goods are kept until they are wanted. Possession utilities are created by getting goods into the hands of people wanting them. The creation of place, time, and possession utilities, in the economic meaning, is a part of production. If one is to have clothes, it is just as necessary that the cotton be stored until needed, brought to the

places where the consumers live, and got into their possession, as it is that the cotton be grown and the cloth be woven.

Market distribution includes those activities which create place, time, and possession utilities. To the economist, market distribution is therefore part of production, as it deals with the creation of utilities. The business man, however, thinks of distribution as selling his goods and getting them into the hands of the consumer. To the economist, marketing is a part of production, and "distribution" refers to the *distribution of wealth* among the members of society. To the business man, "distribution" means marketing—selling and transportation.

This difference of definition is confusing to the student. In order to use his terms correctly, it is necessary for him to remember whether he is talking to an economist or a business man. In this volume, the business man's definition will be followed. Production will be used to mean the creation of form utilities or the making of goods. Distribution will refer to the creation of place, time, and possession utilities or to the transportation and sale of goods and services—getting the goods from the farms and factories to the ultimate consumers.

Object of distribution.—The object of market distribution, as well as of production (farming and manufacturing), is to supply human wants—food, clothing, and shelter. In addition to these primary wants, we have many other secondary ones. Our wants are expanding; the number of secondary wants seems almost unlimited. We have many more physical goods and personal services than our grandparents had; and most of us desire many more than we have.

The larger the quantity of goods and services that people want, the greater the volume of business that is possible. As our wants are practically unlimited, business is capable of almost indefinite expansion. Distribution operates to satisfy the wants of people—to get the goods to them—and it often strives to increase the number of things which people want to buy.

Methods of studying distribution.—Market distribution deals with services, goods, and men. In order to market goods, services must be rendered, acts performed, things done. These services or acts are commonly called functions.

One method of studying distribution is to take up a study of the functions involved. This is called the *functional* approach, or method.

Another way to study distribution is to study the various goods, or commodities, that are marketed and to describe the ways in which they reach the consumers. This is known as the *commodity* approach, or method.

The third method of studying distribution is to study the operations of men engaged in distribution. These are called middlemen or institutions. This method is known as the *middleman,* or the *institutional,* approach.

In using the functional approach, we see what services or functions are performed; what goods they are performed upon; and what middlemen perform them. In using the commodity approach, we see what goods are marketed; what functions are performed upon them in the distributing process; and what middlemen perform these functions. In using the institutional approach, we see what institutions, or middlemen, are engaged in distribution; what functions they perform; and what goods they handle.

Advantages of functional approach.—The study of marketing functions draws our attention to the operations or services performed in distribution. A study of these services helps us to analyze the distribution process; to see just what is done; how it is done; why it is done; and who does it.

The same function may be performed once or several times. Perhaps a study will point out ways of reducing the number of times a thing is done. For example, a goods may be graded every time it is sold. The adoption of uniform standards and the grading by government-licensed inspectors may mean that one grading is sufficient for the entire marketing process. All buyers and sellers may buy and sell on the grade established by the government inspectors.

It is often said that there are too many middlemen. If a middleman is eliminated, are his functions eliminated or are they transferred to others? A study of functions should help us to answer such questions.

Advantages of commodity approach.—The commodity approach starts with familiar goods. It is a simple and easily followed method. The disadvantages of this method are that it involves long descriptions of goods and operations and involves much repetition, if all commodities are studied.

Advantages of middleman approach.—The institutional approach considers the operations of various middlemen. It is a very practical approach, especially for the student who later enters business. The danger of the institutional approach is that it may become too descriptive. It is not as analytical as the functional approach.

We shall devote considerable attention to the operations of middlemen, but before doing so, we need an un-

derstanding of the various marketing functions. The commodity approach seems best adapted to the study of farm products and industrial goods.

Cost of Distribution

Cost of production and distribution.—Market distribution costs more than production. This means that more than half of the money spent by the consumers goes to cover the cost of marketing goods, and less than half to cover the cost of producing the goods. This statement is based on a large number of studies. It represents average conditions. In some cases the producer receives all of the consumer's dollar, as when a farmer peddles his eggs from house to house. In others distribution takes all the consumer's dollar, as when a farmer ships goods to market which sell for only enough to cover the transportation costs and commission.

Illustrations: (*a*) *Oranges.*—A dollar spent by the consumer for California oranges is divided as follows:

Grower for fruit on tree *	27.2¢
Picking and hauling to shipping point	2.9
Packing	10 3
Selling and advertising	2.5
Transportation and refrigeration	23.1
Jobber's margin	5.5
Retailer's margin	28.5
Consumer pays	100.0¢

*Figures are from Annual Report of California Fruit Growers Exchange and cover the year 1934-35.

The grower receives 27 per cent of the price paid by the consumers for the fruit on the trees. Picking takes something like 2 per cent, while marketing takes 71 per cent.

(*b*) *Cornflakes.*—A dollar spent by the consumer for cornflakes is divided as follows:

Farmer	22.1¢
Transportation	15.6
Manufacturing	11.3
Selling expenses	36.8
Profits	14.2
Consumer pays	100.0¢

If we divide the profits arbitrarily between production and distribution, on the basis of expenses incurred in each, we see that production took 39 cents and marketing took 61 cents.

(*c*) *Bread.*—A dollar spent for bread at a retail grocery store is divided as follows, according to government figures:

Farmer, to cover cost of producing and marketing wheat		13.4¢
Country elevator's margin		0.8
Transportation to and marketing wheat in terminal market		3.2
Flour mill's margin		4.8
Transportation of flour		3.1
Wholesale baker:		
Cost of manufacturing bread	19.9¢	
Other ingredients (in addition to flour)	10.8	
Selling expense	18 6	
General and administrative expenses	2.9	
Profit	7 6	
Total to wholesale baker		59.8
Retail grocer's margin		14.9
Price to the consumer		100.0¢

The production and marketing cost of the farmer is 13.4 cents, the flour mill's margin is 4.8 cents, and the baker's manufacturing cost is 19.9 cents: a total of 38.1 cents to cover production costs and the marketing costs of the farmer and flour miller. Transportation of wheat and flour and the marketing of wheat cost 7.1 cents, the baker's selling expense is 18.6 cents, and the grocer's margin is 14.9 cents. Here, therefore, 40.6 cents go for distribution. The remainder of the dollar, 21.3 cents, goes for other ingredients and to cover the baker's profit

and general expense. Dividing this sum (21.3 cents) arbitrarily, half to production and half to distribution we reach the conclusion that distribution costs are 51.3 cents and production costs are 48.7 cents. In the latter figure, however, are included the marketing costs of the farmer and the flour miller, which are not shown separately in the above table.

(*d*) *Shoes.*—A dollar spent for shoes was divided as follows by a government commission:

Raw materials	41.1¢
Manufacturing costs	17.2
Manufacturer's general and selling expense	10.5
Manufacturer's profit	2.7
Retailer's expense	25.4
Retailer's profit	3.1
The consumer pays	100.0¢

Out of $10 spent for shoes, $4.11 goes for raw materials; $1.72 for manufacturing cost; and $2.85 to the retailer. These figures on their face indicate that production takes more than half of the consumer's dollar. Raw materials and manufacturing costs, plus two-thirds of the manufacturer's general and selling expenses and profit, amount to $6.71, or two-thirds of the price paid by the consumer for shoes.

Let us, however, look at these figures a little more closely. Forty-one cents out of each dollar was spent by the manufacturer for leather and other raw materials. Now, the cost of these materials was made up in no small part of distribution costs. Leather comes from hides and skins, and these come from animals raised in various parts of the world. There is, first, the cost of marketing the live animals, and next, the cost of getting the skins to a tanner. The tanner sells the leather; then the leather must be transported to the shoe factory. It thus appears that a very considerable portion of the cost of

raw materials goes for distribution. If one-half of this cost be assumed to represent distribution, then about 47 per cent of the price paid by consumers for shoes goes for production and about 53 per cent for distribution.

Total cost of marketing.—The author has estimated that of the total amount of money expended by the American consumer for goods, 52 per cent goes to cover marketing costs and 48 per cent to cover production costs.[1] These percentages probably do not apply to the marketing of services, recreation, and travel (such as medical services, theaters, railroads, public utilities). Such services appear to be sold relatively more cheaply than goods, as fewer middlemen are involved and the producer often comes into direct contact with the consumer.

Why are marketing costs so high?—According to Census figures, more people are engaged in production than in marketing. Production also appears to employ more capital, owing to the relatively heavy investments in factories, machinery, farms, mines, forests, and oil wells. Yet distribution costs more than production. This fact is apparently explained by the relatively high earnings of people in some marketing work (for example, operating railroads and wholesale houses) and the relatively low earnings of farmers. In considering the low average income of the farmers, it should be remembered that they raise most of their food, a considerable portion of their fuel, have no house rent to pay, and do not have to pay carfare to and from work and buy lunches as do many city workers. Nevertheless, their average money income is low and pulls down the average for the production group.

One reason for the high costs is that the study of mar-

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[1] Converse, Paul D.: *Elements of Marketing,* rev. ed., New York, Prentice-Hall, Inc., 1935, Appendix.

keting is relatively new, while chemistry, physics, agriculture, engineering, and mining have been studied for decades. The first textbook on market distribution appeared scarcely 20 years ago, and only since 1915 has serious market research been undertaken. The government has for many years taken censuses of agriculture, manufacturing, and mining; but the first Census of Distribution was taken in 1930.

Second, power-driven machinery has been applied to manufacturing and farming. Distribution, with the exception of transportation, remains largely a hand industry. It employs relatively few mechanical aids.

Third, there are many wastes and risks in distribution —poor packing of goods for shipment, poorly designed and inadequate facilities for handling goods in many cities, and lack of standardization. There is much duplication of effort: many salesmen call upon the same buyers; competing delivery wagons cover the same streets; small competing stores stand side by side; much advertising is wasted.

Fourth, there are many risks. Goods spoil and go out of fashion; prices may fall while goods are in stock; goods may be stolen or destroyed by fire.

Transportation as an element in marketing cost.—Large-scale production means that large factories are located in regions that are especially adapted to the production of given products. Therefore goods must be transported long distances to the consumers. The consumers today want a great variety of goods, many of which are brought from distant parts of the world.

Service as an element in cost.—A part of the high cost of distribution is often blamed on the services furnished the consumers. It is said that the consumers want a great variety of goods upon an instant's notice; that

they buy in very small quantities; that they want much credit; that after making purchases they frequently change their minds and return goods to the stores; that they want instruction in the use of goods; that they want the goods repaired free of charge; that they want goods delivered; that they want to trade in stores with expensive fixtures; and that they expect to be waited on the instant they enter a store.

Such services increase the cost of marketing and prices. Some assume that the higher prices injure the consumer. Services may or may not be worth their cost to the consumer. To illustrate: Mrs. Jones may prefer to visit the grocery store, pay cash for her groceries, and carry them home. On the other hand, Mrs. Smith may be a very busy woman. She may have heavy home duties and may prefer to spend her leisure in reading, working her garden, or playing golf. She wants to order her groceries over the telephone and have them delivered. Now, in the town where the Joneses and Smiths live it may cost 10 cents to deliver an order of groceries and 5 cents to enter the charge on the books. Delivery and credit service are worth 15 cents to Mrs. Smith, because she values her time more for other purposes. The services are a utility to her. She is not injured by the grocer's charge for them. Mrs. Jones, on the other hand, does not want these services and is injured if she has to pay for them.

Have marketing costs increased?—It has been stated that during the past century production costs have decreased while distribution costs have increased, and that distribution now takes a larger percentage of the consumer's dollar than formerly. Even if true, this does not prove that distribution costs have increased absolutely, even if they are measured in terms of money with a stable purchasing power. The increase may have been

entirely relative. To illustrate, at a former time it may have cost 40 cents to produce an article and 20 cents to market it. The price to the consumer was 60 cents. At the present time, owing to improvements in methods of production, the cost of producing this article may have fallen to 20 cents, while the distribution costs have remained stationary. The price to the consumer is 40 cents.

	Past Period	*Present Period*
Production costs	40¢	20¢
Distribution costs	20	20
Price to consumer	60¢	40¢

In the past period production took two-thirds and distribution one-third of the price to the consumer. At the present time distribution takes one-half of the consumer price. The consumer is benefited, for she receives the article 20 cents cheaper than she did in the past.

Distribution costs may actually decrease and yet take a relatively larger portion of the consumer's dollar.

	Past Period	*Present Period*
Production costs	40¢	20¢
Distribution costs	20	15
Price to the consumer	60¢	35¢

In this case, marketing costs have decreased 5 cents, and yet in the past period marketing took 33⅓ per cent of the consumer's dollar, while at present it takes 43 per cent.

Marketing costs may increase while the price to the consumer decreases.

	Past Period	*Present Period*
Production costs	40¢	20¢
Distribution costs	20	30
Price to consumer	60¢	50¢

Although marketing costs increased 10 cents, the consumer is not injured, as he receives the articles for 10 cents less than he did in the past period. The consumer would be injured, however, if distribution costs increased more than the production costs decreased.

Marketing costs should be reduced.—The people engaged in marketing should not be satisfied with their record. Distribution costs as well as production costs should be reduced. A leading merchant says that he will consider his business life a failure if he does not succeed in bringing down the cost of retailing. Men engaged in distribution should not be satisfied to see all the laurels go to the production men. The man who reduces the cost of distribution does just as much to increase the standard of living and the well-being of the people as does the inventor of a machine which reduces the cost of production.

In order to reduce costs, marketing should be studied. Market research is needed. Improved methods will come from study and research.

Chapter 1

Review Questions

1. Which is more important today, production or marketing? Why? Which costs more?

2. Why has our capacity to produce goods increased faster than our capacity to market them?

3. Define economics.

4. Define distribution (or marketing).

5. What is the relation of distribution to business? To economics?

6. What is meant by *utility?* What utilities are created in the process of distribution?

7. What are the two meanings of distribution?

8. What are the two meanings of production?

9. What is the object of marketing?

10. What are the three ways of studying market distribution? What is the chief advantage and disadvantage of each method?

11. Enumerate the costs included in the price of a loaf of bread; of a pair of shoes.

12. Why are distribution costs so high?

13. Are the consumers benefited or injured by the liberal services offered today by the sellers?

14. "Large-scale production increases transportation costs." Comment on this statement.

15. Why are marketing costs said to have increased during the past century?

Thought Problems

1. What do people want? Do most people have all the things they want? How does market distribution operate to supply human wants?

2. Does the getting of the things we want make us happy?

3. How can people be made to want more things? Name all the ways you can think of and indicate those which you consider are the most important.

4. Should people be made to want more things?

5. The offering of so many services by sellers is given as one reason for the high cost of distribution. Some people assume that these services are rendered by the sellers in the competitive struggle for business and that the consumers are injured by the high cost of rendering these services. Do you agree? Why or why not?

Chapter 2

What Marketing Involves—Marketing Functions

Functions or services involved in distribution.—If goods are to be distributed, services must be performed. Work must be done to get goods to the consumers. The acts, services, or operations performed in getting goods from the producers to the consumers are called *functions.*

The marketing functions.—The two main groups of functions in distribution are: (1) the change in ownership (title) and (2) the physical handling of goods. The first creates possession utility, and the latter, place and time utilities. The marketing functions are classified below. Certain general business functions which are involved in marketing are included:

A. Change of ownership:
  1. Buying;
  2. Selling.

B. Physical handling of goods:
  3. Transporting;
  4. Storing;
  5. Packing;
  6. Standardizing and grading;
  7. Assembling;
  8. Dividing.

C. General business functions involved in marketing:
  9. Financing;
  10. Risking;
  11. Recording;
  12. Managing.

Buying

Goods must be bought or produced before they can be sold. When they are produced, raw materials, operating supplies, and machinery must be bought. We thus think of marketing as beginning with buying. Buying is important both to business men and to consumers.

The present-day consumer buys a great variety of goods—meats, vegetables, cereals, butter, cheese, and other foods; cloth, shoes, hats, and ready-made garments for clothing; furniture and house furnishings; medicines and toilet articles; automobiles, tires, and gasoline; and amusements.

Most consumers do not have enough money to buy everything they desire, and must choose those things which are best adapted to their needs and pocketbooks. The consumer has been accused of using poor judgment in buying. With the great variety of goods to be bought, it is next to impossible for one person to be a good judge of the qualities and merits of all the goods purchased.

Buying function analyzed.—The buying function may be divided as follows:

(a) Determining needs;
(b) Finding sources of supply—sellers;
(c) Negotiating prices and other terms;
(d) Obtaining title to the goods (legal part of buying).

Determining needs.—The manufacturer, the merchant, and the consumer must determine their needs. Their problems are somewhat different. The business concern buys with the needs of the customer in mind, while the consumer buys to satisfy his own wants.

The business concern should study its past sales records to determine trends in demand. From these records it can determine the types of goods and prices suited to its

customers. It should study trends in fashion. The large business concern often has a laboratory where products are tested to determine their actual qualities and their suitability to the buyers' needs.

The ultimate consumer must determine how he will spend his money. He often weighs the relative advantages of one purchase against another. It may be a new automobile, a year in college for his son, new furniture for the home, or a vacation trip for the family.

Finding sources of supply.—Under present conditions, the sellers usually seek the buyers, but in spite of this practice the buyer often needs to hunt a seller. The buyer may want a new or a different product, and no salesman offering this product may call.

Negotiating terms.—In retailing, many stores have adopted the one-price policy. In such stores the customer buys at the specified price or does not buy. He may, however, shop from store to store for a lower price. In wholesaling, however, there is much room for price negotiation. Orders may go to the lowest bidders. Many sellers may be after the same order. Credit terms, time for delivery, payment of freight, repair service, guarantee, and other terms may be negotiated.

Obtaining title.—The buyer must obtain legal title to the goods before a purchase is completed. The passing of title may be taken for granted in ordinary purchases, but in case of a dispute, the time and place where title passes from seller to buyer are important. Where large amounts are involved, or where goods are made to order, formal contracts are often used.

Selling

Selling function analyzed.—Most business men say that selling is the most important distributing function.

The man who can sell his goods at a profit is successful, while the man who cannot sell his product is a business failure, no matter how good his product may be. The selling function may be divided as follows:

(a) Creating demand;
(b) Finding buyers;
(c) Giving buyers advice;
(d) Negotiating terms;
(e) Transfer of title.

Creating demand.—By creating demand we mean arousing the desire for things among people who have ability to buy them. If people can be made to want things badly enough, they may work harder or more intelligently in order to secure the money with which to buy them. Some explain the development of civilization by saying that people were made to want things, and, in order to satisfy their desires, they worked and schemed. As a result of this work came development. According to this reasoning, the salesman and the advertiser who arouse our desires for new or better things help to develop civilization. On the other hand, some say that we are *oversold* and are too dissatisfied to get the most enjoyment out of life. Lack of space forbids a discussion of this idea here.

New things, better things, more beautiful things are constantly being placed on the market. People must be made to want these things. The seller may use advertising, personal salesmanship, or publicity to create demand. He may display and demonstrate the goods, give away samples, and try to "educate" the buyers to the advantages of his product. Much advertising and a goodly portion of personal salesmanship is used to create demand.

Finding buyers.—A good deal of the selling effort is directed to finding people who already want the product. Want ads are almost entirely directed to people who are already conscious of a need. Many retail salespeople assume that people know what they want when they enter a store. Many traveling salesmen are in reality "order takers" who simply take orders from people who know that they need the goods offered by the salesmen. Most price advertising is aimed at people who already want the goods.

Giving advice.—The seller often gives advice to buyers. This advice may relate to the use of the product, or it may be much broader and be given to help the buyer determine his needs or to conduct his business more efficiently. Many buyers depend upon the sellers to teach them to use and repair their goods. By helping the buyer to secure the best use from his products, the seller secures satisfied customers and a reputation for his goods which helps to increase sales. The seller may go farther and help the buyer with the conduct of his business: he may give advice on stockkeeping, advertising, window display, bookkeeping, buying, or salesmanship. He does this to build up goodwill or to make the buyer a better business man, so that he will sell more of the seller's goods.

Negotiating terms.—The negotiation of terms and the transfer of title were discussed above.

Transporting

Transportation involves getting goods and services from the places where they are produced to the places where they are wanted by the consumers. This is what in economics we call the creation of *place utility.*

Civilization in no small degree has been made possible

by transportation. It permits the exchange of goods between sections with different resources, climates, and industries. It enables goods to be produced in places that are best adapted to their production. Factories can be located near raw materials, labor supply, power, or the consumers. Foods can be grown in regions that have soil and climate adapted to their production. Through the production of goods in favorable regions, production costs are reduced.

Transportation enables us to secure a great variety of goods. We secure tea, rubber, and silk from the Orient; coffee from Brazil; sugar from Cuba; cocoa from Africa and South America; iron ore from Minnesota; oranges from Florida and California; wool from Australia; canned salmon from Alaska; canned pineapples from Hawaii; and so on for hundreds of other products. Transportation enables us to have many fresh goods, such as fruits and vegetables, the year around.

Goods moved by owners and agents.—Goods may be moved by their owners or by hired agents. The farmer often hauls his goods to the railroad station, while the manufacturer and merchant often deliver goods to customers in their trucks. Customarily, however, goods are moved by agents such as railroads, express companies, trucking companies, and steamship lines.

Methods of transportation.—Goods are moved by railroads, trucks, barges, ships, airplanes, pipelines, and animals and human beings.

Local transportation appears to cost more than rail transportation. The handling of goods between factories, stores, warehouses, trucks, and freight cars is one of the most expensive parts of transportation. One study showed that the cost of packing, carting, loading, un-

loading, and unpacking 20 commodities was nine times as much as the freight paid to the railroads for moving them.

The motor truck is used in local transportation. It is a feeder for the railroads, and is also an important competitor of the railroads for long-distance traffic. The airplane offers great possibilities and is already important in carrying passengers, express, and mail. Pipe lines are important in moving oil and gas. In international trade, water transportation is necessary. In the United States, inland water transportation is relatively unimportant except for the movement of iron ore, coal, grain, and other commodities on the Great Lakes.

In the movement of passengers, the passenger automobile, the street car, the motor bus, and the railroad are the important agencies. In total mileage the automobile comes first.

Our transportation system.—We have 3,000,000 miles of rural highway and 250,000 miles of city streets. One-third of the rural highway is improved, and 10 per cent is included in state highway systems. Most of the city streets are surfaced. We have 25,000,000 automobiles and trucks; 250,000 miles of railway line; 50,000 locomotives; 2,000,000 freight cars; 50,000 railroad passenger cars; and 27,000 miles of navigable rivers and canals, of which 5,000 miles have a depth of over six feet.

The railroads move goods and people, but freight transportation is their most important business. Excluding purely local truck movements and goods moved by their owners, the railroads move about one-half of the total freight of the country. The railroads, however, move goods for longer distances than trucks and river carriers, so that they carry nearly three-fourths of the

traffic load as measured in ton miles.[1] Prior to 1930 they carried $1\frac{1}{3}$ billion tons of freight yearly. This was more than 50,000,000 carloads. Rail traffic declined some 40 per cent in the early 1930's owing to the business depression and the competition of motor trucks. At this writing, rail traffic is increasing, but some of the railroad business seems permanently lost to the trucks. No complete census has been taken of truck traffic. Intercity traffic runs into hundreds of millions of tons, and, counting all local traffic, the total is much more.

Vessels on the Great Lakes moved an average of 125,000,000 tons annually during the decade ending in 1932. Most of this traffic consisted of iron ore, coal, stone, and grain. During the same decade, the rivers and canals of the country moved 200,000,000 tons annually, most of which was moved for short distances (averaging about 50 miles). One-fourth of the river traffic involves shipments of gravel, sand, and cement, most of which is used in construction operations on the rivers.

Figures showing the amount of goods transported in 1932 are given in Table 1. It should be remembered that 1932 was a poor business year, in which the amount of traffic was low. The figures for truck movements cover only intercity movements of goods carried by trucks operated for hire. A very large amount of traffic is moved between cities by merchants and manufacturers. The for-hire intercity trucks made up only 6 per cent of the total number of trucks in operation, indicating that the majority of trucks are used for local hauling and for long-distance movement by the owners of goods.

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[1] A *ton mile* is a unit of measurement denoting the movement of one ton of goods one mile.

TABLE 1.—TRAFFIC MOVED BY VARIOUS CARRIERS IN 1932

Type of Carrier	*Tons Moved (thousands)*	*Per Cent of Total*	*Ton Miles (millions)*	*Per Cent of Total*
Railroads	678,854	53.9	235,309	73.9
Great Lake vessels	39,544	3.1	24,734	7.8
Pipe lines (petroleum) ..	80,029	6.3	19,600	6.2
Intercity trucks ...	299,768	23.8	29,977	9.4
River and water carriers	151,276	12.0	7,910	2.5
Electric railways and airplanes	11,661	0.9	583	0.2
Totals	1,261,132	100.0	318,113	100.0

Cost of transportation.—The total cost of transportation, including the operation of railroads, automobiles, trucks, buses, pipe lines, airplanes, and vessels on inland waterways, and including the cost of building and maintaining our highways and streets, is some 20 billion dollars annually, and this figure does not include the total cost of loading and unloading goods at stores and warehouses. A very considerable part of this cost covers the movement of people who are traveling for pleasure rather than business. The cost of transportation may be said to equal approximately one-fourth of our national income. This indicates that transportation is one of the most expensive of the marketing functions.

Services rendered by railroads.—The railroad moves freight in carload quantities (c. l.) and in less-than-carloads (l. c. l.). The rates are lower on the former. Carload freight is handled in larger quantities, and the shippers usually load the goods into cars at the place of shipment and unload the goods from the cars at their destination. The railroads place ("spot") the cars on sidings convenient to the shippers. The railroad usually loads and unloads less-than-carload shipments. In the

past, the rail haul began and ended in the rail terminals. If a shipper did not have a siding, he delivered his goods to a railroad-owned siding or freight house. The express company for many years has picked up packages from the shippers' doors and delivered them to the door of the consignees. This pick-up and delivery service is known as "store-door delivery." Motor-truck carriers commonly give this service. In order to meet truck competition, many railroads are giving free store-door delivery on less-than-carload shipments, and this will probably soon be done by all the railroads. The practice could also be applied to carload shipments.

Liability of common carriers.—A common carrier is one who holds himself out to the public to move goods or persons for pay. A common carrier should not be confused with a carrier for hire, who moves goods or persons under special contract and does not hold himself out to move goods for anyone who may apply. The common carrier must serve all equally at reasonable prices. He cannot refuse to serve as long as he has facilities available. He is responsible for the safe delivery of the goods or persons in his care. He is excused for damage to goods or injuries to persons only for such causes as acts of God, acts of a public enemy, acts of shippers, acts of public authorities, or loss caused by the inherent nature of the goods. This heavy responsibility upon the common carrier seems reasonable, as the shipper ordinarily cannot tell when, where, or why his goods are lost or damaged while they are in the hands of the carriers.

Bills of lading.—The contract between the railroad and the shipper is called a bill of lading. The bill of lading is a receipt for the goods, a contract for the transportation of the goods, and a shipping order.

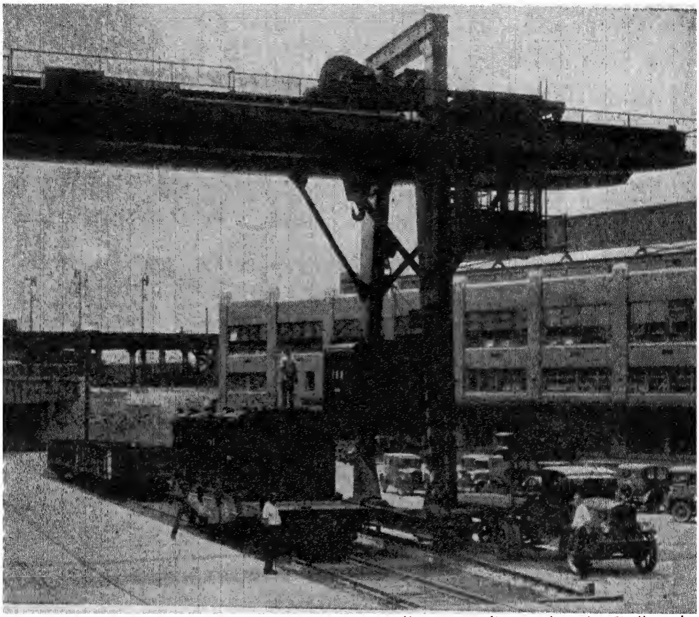
There are two kinds of bills of lading. The *straight bill* is used for ordinary shipments. A copy is sent to the consignee, who presents it to obtain the goods from the carrier. The *order bill* is used by the shipper when he wishes to collect from the buyer before the buyer obtains the goods. The seller ships the goods to his *order,* draws on the buyer, attaches the draft to the order bill, and sends these to the buyer's bank for collection. When the buyer pays the draft, the bank delivers the bill of lading to him. He takes this to the railroad and obtains the goods. The order bill of lading carries title to the goods and is negotiable.

Demurrage.—Shippers and receivers are allowed a stated amount of time in which to load and unload cars. This free time is usually 48 hours from 7 A.M. on the day following the spotting (placing) of cars or the notice of arrival. If cars are held longer, an extra charge known as demurrage is made.

Reconsignment.—Many goods are shipped before they are sold and are sold while they are in transit. The shipper then changes the destination of the goods. This change is known as *diversion.* When goods reach their destination, they may be *reconsigned* to another point. The through rate from the point of origin to the new destination applies when shipment continues in the same direction, but an extra charge for the reconsigning privilege is added.

In-transit privileges.—Goods are often stopped while in transit for manufacturing, storing, feeding, grading, pressing, or fabricating. Shippers are often allowed *in-transit* privileges, by which they pay only the through rate from the point of original shipment to the destination of the processed goods plus a relatively small in-transit charge.

Suggestions for improved service.—Although our railroad service is fairly good, there is room for improvement, especially in speeding up the delivery of freight. Delays occur particularly in the terminals in the larger



Courtesy Pennsylvania Railroad.

Fig. 1.—Unloading steel freight containers from a flat car to a truck by means of an overhead crane. These containers are loaded at the shipper's plant and are unloaded at the buyer's place of business. Some railroads are using containers in an attempt to hold more of the l.c.l. business in competition with motor trucks.

cities. Some of the proposals for improving the services are: the use of smaller trains, such as units powered by Diesel engines, for branch-line service and fast passenger trains; electrification of the railroads, especially across mountains and in cities where the traffic is heavy; the pooling of freight cars, so that they can be used wherever they are most needed; the operation of all the ter-

minal facilities within a city by one terminal company so as to expedite the movement of goods through the city and better serve the shippers; improved mechanical devices for loading and unloading cars; and the use of containers holding several tons, which are moved to and from the railroad cars by motor trucks.

Services performed by motor trucks.—The 3,500,000 motor trucks are a very important part of our transportation facilities. They are engaged very largely in local service—delivering goods to the customers by retail and wholesale merchants, hauling goods to and from the railroad terminals, hauling goods from farms to shipping stations, and moving goods within cities.

Trucks, however, are coming more and more to move goods between towns served by the railroads. Even if the cost of moving goods by truck is higher than the railroad rates, the truck may be used because of other economies. It moves goods from store door to store door. When less-than-carload shipments are made by rail, the goods must ordinarily be loaded on the truck, hauled to the freight house, unloaded, loaded into a freight car, unloaded at destination, loaded into a truck, hauled to the store of the buyer, and unloaded. If a motor truck is used, it may load the goods at the shipper's door and carry them directly to the warehouse of the receiver. Thus one motor haul is substituted for two motor hauls plus one rail haul.

For long distances the railroad appears to have lower costs, owing to the fact that a train moves a much larger load than does a truck. A freight train with a crew of five men may move from 2,000 to 5,000 tons of freight, or 400 to 1,000 tons per man. A man on a motor truck may move anywhere from a few hundred pounds up to 5 or 10 tons. If the average load per man on a freight train

is 600 tons and the average load per man on a truck is 3 tons, then one man on a freight train moves 200 times as much as one man on a truck. Yet in spite of this, the movement of goods by truck has grown tremendously.

Goods are moved by truck for hundreds of miles, and hauls of over 1,000 miles are not unusual. Some of this growth in truck transportation is due to quicker deliveries and flexible movements by trucks; to the convenience of store-door deliveries; to the avoidance of delays and damages in rail terminals; to savings in crating and handling costs; to the shortening of trade channels and the lessening of other marketing costs; and to cheaper labor employed in trucking. The latter two reasons are very important. Truckers often buy goods at the place of production and sell to buyers at the destination—a procedure that often saves the expense of handling by one or more middlemen. It will be shown in later chapters that trucking often reduces marketing expenses so that total marketing costs can be reduced even though higher transportation costs are incurred. The wages of truck drivers are much lower than the wages of trainmen. Under the NRA code, for example, minimum wages for truck drivers were set at 30 to 55 cents per hour, while trainmen are commonly paid more than double this rate. In periods of business depression, many trucks are operated by owners who would otherwise be unemployed. Many persons buy or rent trucks (often used trucks) and go into the trucking business. They may be willing to work very cheaply until business improves so that they can get better jobs.

It is doubtful whether the tax systems of many states require the truck operators to pay their proportionate share of the costs of building and maintaining the high-

ways. If this share is not paid, the trucks are given an artificial advantage over the railroads which must build, maintain, and pay taxes on their roads.

Services of passenger automobiles.—There are 22,000,000 passenger automobiles registered in the United States. These cars are used for both pleasure and business. The average annual mileage of these cars has been estimated at 5,600. If the average number of passengers per car be taken as two, then the total annual passenger miles[2] are some 250 billions. This figure is twelve times the passenger mileage of the railroads.

The automobile has probably done more to affect our methods of living than any other invention since the steam locomotive. The automobile furnishes fast transportation adapted to the needs of the individual. It has led to the building of a wonderful system of paved highways. It has increased travel, brought formerly isolated communities into touch with the outside world, helped education, and shifted retail trading areas. It has increased the mobility of trade. The family with a car does not have to trade at the nearest store. It can visit local stores, or stores located at a distance or in other towns. The automobile has changed our methods of living and so affected our demand for goods and services.

The automobile and truck have also affected business methods. Many traveling salesmen use automobiles and so call upon retailers more frequently than when they traveled by train. The motor truck has increased the frequency and speed with which goods are delivered from producers to jobbers and retailers.

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[2] The *passenger mile* is a unit of measurement denoting the movement of one person one mile.

Chapter 2

Review Questions

1. What is meant by "marketing functions"? Why should they be studied?

2. Enumerate the various marketing functions.

3. What is meant by "buying"? What are the subdivisions of the buying function?

4. What is meant by "determining needs"?

5. How do the business concern and the consumer determine needs?

6. What is meant by "seeking out sources of supply"? When is it necessary for the buyer to seek out the sellers?

7. What is meant by "negotiating terms"?

8. What is meant by "obtaining title"?

9. What is meant by "selling"? What are the different divisions of the selling function?

10. What is meant by "creating demand"? How can demand be created?

11. How does the seller find buyers for his wares?

12. What is meant by "giving advice to the buyers"? Why does the seller give such advice?

13. What is meant by "standardizing"?

14. What is meant by "uniform standards"? How can uniform standards be secured?

15. What wastes are due to a lack of standardization?

16. What is transportation? What utility does it create?

17. What different methods of transportation are important? What do they cost during a year?

18. Under what conditions are goods transported by agents?

19. What is a common carrier?

20. What is the liability of a common carrier?

21. Distinguish between straight and order bills of lading.

22. Of what does our transportation system consist?

23. What is c.l. freight? L.c.l. freight? Why the difference in rates?

24. What is demurrage?

25. What is diversion? Reconsignment? (What rate is charged in each case?)

26. What is meant by in-transit privileges? (What rate is charged?)

27. What suggestions can you make for improving railroad service?

28. What services are performed by motor trucks?

29. What are the advantages and disadvantages of the motor truck in comparison with the railroad?

30. What services are performed by passenger automobiles?

31. How has the automobile affected the marketing of goods?

Thought Problems

1. It is said that we have too much salesmanship—that we are "over-sold." It is said that we need more *buymanship,* meaning that the consumers should devote more time and attention to buying. Comment on these statements.

2. It has been said that the desire for things is the main factor in causing people to work, and that only as a result of work has civilization been developed. According to this viewpoint, the person who makes people want more things is a benefactor of mankind. Do you believe that people are benefited by being made to want more things?

3. It was formerly the practice for retail dealers to mark their prices in code and for the sellers and buyers to higgle over prices. Higgling is still common in many foreign countries.

By the "one-price policy" we mean that the seller places

his price on the goods; that the same price applies to all comers; and that he will not sell for less than the marked price. What are the advantages and disadvantages of this policy?

4. Why is there more higgling over prices in the wholesale than in the retail trade?

5. Would the establishment of standards by the government, and the requirement that all sellers label their goods with the established standard, reduce economic wastes? Would you say that the following are standard products: Heinz baked beans? Listerine shaving cream? Gillette razors? No. 2 red winter wheat? Sunkist oranges?

6. We spend much effort and money to reduce transportation costs. Then we enact high tariffs to make it more expensive to take goods from one country to another. Can you explain this inconsistency?

7. What suggestions can you make for improving railroad freight service?

8. Should motor trucks be taxed enough to cover their share of the costs of building and maintaining the highways and streets? Are they so taxed in your state?

9. What is the proper place of the motor truck in our transportation system?

10. What is the proper place of inland water transportation in the United States?

11. Who should pay the cost of improving and maintaining our inland waterways (including the cost of building and operating necessary locks)? How should the money be collected?

12. What do you think of the future of air transportation?

13. Should the railroads be allowed to abandon branch lines when the operation of such lines involves a loss to the railroads?

CHAPTER 3

Marketing Functions (Continued)

Storage

Storage creates time utility.—Storage is the keeping of things from the time they are produced until they are needed by consumers. Primarily it creates time utility. It gives the consumer an even or regular supply of goods throughout the year, although many goods are produced only at certain seasons. Wheat, corn, cotton, tobacco, and apples are harvested during relatively short periods, but the public wants these goods from day to day. Storage is necessary to supply this continuous demand.

The production of many other goods is irregular. Cows give more milk and hens lay more eggs in the spring and summer than during the fall and winter, but consumers want about the same quantity of butter and eggs throughout the year. Storage is therefore utilized to keep some of such irregularly produced products from the period of surplus production to the period of deficient production. Without storage, prices would be so high during the fall and winter that many of us would have to go without butter and eggs. On the other hand, prices would be so low during spring and summer, owing to surplus production, that the markets would be demoralized and the farmers discouraged.

Influence of storage on prices.—Storage tends to equalize prices. Let us take butter as an example. The heaviest production comes in the spring, and since the

price drops at this time, dealers buy butter for storage. This demand keeps the price from dropping as low as it otherwise would. In the fall and winter, when less butter is produced, the storage product is placed on the market, and this additional supply keeps the price from going as high as it otherwise would. The effect of storage in stabilizing prices may be illustrated by the prices of butter before and after the introduction of cold storage. The first period selected for study was 1880 to 1884, before cold storage was available. The second period, 1910 to 1914, was after cold storage facilities were well developed. Elgin (Illinois) prices were used for both periods.[1] Before cold storage was introduced, the average high winter price for 120 per cent above the low spring price. After cold storage was in use, the average high winter price was only 49 per cent above the low spring price.

Five-Year Periods	*Average of the Low Spring Prices*	*Average of the High Winter Prices*	*Percentage of Fluctuation Between High and Low Prices*
1880-1884	19¼¢	42¼¢	120%
1910-1914	24½	36½	49

Storage supplies seasonal demands.—The demand for many products is seasonal or irregular. Electric fans are purchased largely during summer heat waves. Ice skates and sleds are sold in largest numbers during the winter. Jewelry and toys are sold in largest quantities just prior to Christmas. Fireworks are sold in largest quantities for the Fourth of July and Christmas. Bathing suits, fishing tackle, electric heaters, gloves, and hunting supplies are also largely seasonal in their sale. If factories

[1] Hibbard, B. H.: *Marketing Agricultural Products,* Ch. 8.

producing such seasonal goods are to be operated regularly, part of the goods produced during the dull months must be stored to meet a later demand.

Reserve stocks.—Reserve stocks are necessary to guard against interruptions in production and transportation. Production may be interrupted by fires, strikes, floods, drouths, or other causes. Some manufacturers carry large reserve stocks outside their factories to care for their customers in case production is stopped.

Transportation may be interrupted by storms, strikes, wrecks, or floods. Ice stops water transportation on northern waters during the winter. Motor-truck transportation is often interrupted by snow and ice. Supplies are often stored near the consumers to care for interruptions in transportation.

Costs of storage.—Storage involves cost for space, for labor in placing goods in the storage warehouse and taking them out, for interest on the capital tied up while the goods are in storage, for insurance, and for loss and deterioration of the goods.

Storage involves risk. Goods may shrink in weight, rot, be stolen, or be burnt. They may be damaged by moisture or vermin, they may go out of style, or the price may decline.

People incur these expenses and risks in the hope of making a profit. Profit is expected from an advance in the price of the goods while they are in storage.

Kinds of storage.—There are many kinds of goods. Some are non-perishable and require no special protection. Ores, pig iron, and rough lumber are often stored in the open, while relatively non-perishable goods, such as grains, cotton, wool, and dressed lumber, need only be kept in dry places. Some products are semi-perishable. They can be stored for considerable periods under

proper conditions. In this class come such goods as apples, butter, and potatoes, which should be kept cool and at even temperatures. They are often stored in cold-storage warehouses. Some goods are highly perishable and can be stored for only short periods. Peaches, strawberries, tomatoes, and fluid milk furnish examples.

Quick freezing.—New and improved methods of storing have been introduced which increase the number of products that can be stored successfully. Recently quick freezing—freezing at very low temperatures—has changed the marketing of many products. It has enabled fresh ocean fish to be marketed all over the country. It is being applied to fresh fruits and meats and enables such products to be stored for many months.

Improved methods of transportation and production lessen need for storage.—The transportation companies are direct competitors of the storage warehouses. To illustrate, potatoes are stored for use during the winter and spring. Yet potatoes produced in southern territories are brought by the railroads and steamships to northern markets during the winter, spring, and early summer; hence the demand for stored potatoes is lessened during these seasons.

Improvements in methods of production also lessen the need for storage. Earlier- and later-maturing vegetables are developed, while better feeding and care of dairy herds increase the production of milk in the fall and winter.

Where should goods be stored?—Goods may be stored at the point of production, at the point of consumption, or at an intermediate point through which they pass during the marketing process. In order to keep consumers supplied at all times, it is often necessary that some reserve stocks be carried near the points of con-

sumption. In the past, seasonally produced farm products have commonly been shipped soon after harvest, and thus a heavy temporary burden has been placed on the railroads. It has been suggested that these goods should be stored for longer periods at the points of production in order to equalize the burden of the railroads. On the other hand, it has been contended that more coal should be shipped in the summer and stored near the consumers in order to equalize production and transportation.

Some of the factors to be considered in determining the best place to store goods are:

1. The keeping of necessary reserve stock near the consumers.
2. The equalization of the transportation burden on the carriers.
3. The location of the best physical storage facilities. Such facilities can often be more fully utilized if provided in large markets.
4. The place where money can be borrowed to best advantage to carry the goods while in storage.
5. Transportation facilities. Goods are often stored in terminals where they can be received and shipped easily. Goods may be stored in ports where they have to be transshipped from vessel to railroad or from railroad to vessel.
6. Freight rates. Other things being equal, goods should be stored where the transportation costs of getting them to the consumer will be least.

Freight rates.—Freight rates are generally lower on carload than on less-than-carload shipments. For this reason, goods should ordinarily be shipped the maximum distance in carloads. This often means that they are

shipped to points near the consumers in carloads. Here they are unloaded and stored ready for shipment to the retailers by truck or by rail in less-than-carloads. There is need for considerable study in determining the proper locations for storage houses. Transportation costs should be held down, while storage costs should not be excessive. The seller with stocks within easy reach of the retailers has a strong selling advantage. At the same time, if he carries stocks at an unreasonably large number of points, storage costs will be high.

This saving in freight rates by storing at central distributing points is illustrated by the shipment of catsup from New York to Rockford, Illinois. The retailer in Rockford does not need a carload of catsup at one time. If he has it shipped from New York in less-than-carloads, the freight will be $1.59 per 100 pounds. The catsup, however, can be shipped to Chicago in carloads (36,000 lbs.) for 56½ cents per 100 pounds. The less-than-carload rate from Chicago to Rockford is 45 cents. Thus the total cost of shipping in this way is $1.01½ per 100 pounds. Here is a saving of 57½ cents, while the cost of storing in Chicago for one month is 12.8 cents.

Who should store goods?—In the past, the wholesaler was depended on to carry large stocks of goods. At present, however, many wholesalers carry relatively small stocks in order to reduce the cost and risks of storage. Manufacturers have often assumed a large part of the storage function. Improved transportation service during recent years, however, has lessened the need for carrying reserve stocks. Many manufacturers carry only small stocks, producing goods only as rapidly as they are sold or keeping only a little ahead of sales. This scheme gives the consumer fresher goods and reduces the costs and risk involved in storage.

Seasonally produced farm products must be stored until needed. The question often arises as to whether the farmer should sell his products as soon as they are harvested or whether he should store them for sale toward the end of the season. In some years the prices are much higher toward the end of the season than in the fall, and profits are made by storing goods. In other years the spring prices are lower than in the fall, and losses result from storing goods. Several studies indicate that, over a period of years, spring prices are about enough above fall prices to cover the costs of storage—interest, rent, handling, shrinkage, and deterioration. The inference is that if a farmer is able to study all supply and demand factors carefully, he can decide at each harvest whether to sell his goods at once or store for a rise in prices. If he is not capable of making such forecasts, then he might just as well follow the practice of selling as soon as the goods are harvested.

Storage facilities.—Storage facilities may be provided by producers, middlemen, consumers, or warehousemen who store goods for pay. Goods are stored in farmers' granaries, manufacturers' storerooms, retailers' stores, consumers' pantries, and public warehouses. It is very important that adequate storage facilities be available at all times: sufficient space in properly located houses, proper protection against fire and theft, and proper temperatures.

Public warehouses.—Public warehouses are operated to store goods for the public for pay. There are six types of public warehouses:

1. *Merchandise,* for the storage of general merchandise.
2. *Household goods.*
3. *Cold storage,* for the storing of goods that must be kept cold.

4. *Special commodity,* for storing particular types of goods, as grain, tobacco, or cotton.

5. *Bonded,* where goods can be stored under bond. This is necessary when the movement of goods is regulated by the government, as is the case with imported goods upon which the duty has not been paid.

6. *Custodian or field.* Goods are placed in the hands of a public warehouseman but are stored on the premises of their owners. This procedure secures the advantages of storing in a public warehouse without incurring the expense of moving the goods from the owner's premises.

Services of public warehouses.—There are several advantages of storing goods in public warehouses. A negotiable receipt may be obtained and used as collateral for loans from banks or finance companies. The goods cannot be removed and sold without the warehouse receipt, which is held by the creditor as collateral. The warehouse receipt is secured by a certain quantity of goods. While these are in the hands of the warehouseman, they cannot be levied upon by the creditors of their owner. Borrowing on a warehouse receipt reduces the amount of capital which is necessary to carry goods, or, stated another way, the warehouse receipt enables one to carry a larger quantity of goods than he could with his own capital.

By storing in public warehouses, one need pay for only the actual amount of space used. The amount of space needed often varies widely from one time to another. If a seller provides his own warehouses, much of his space may be idle at certain seasons.

The better public warehouses are well constructed. They are fireproof, equipped with automatic sprinklers, and are under guard 24 hours a day. For these reasons,

insurance rates on goods in such houses are often considerably lower than for goods in more poorly constructed and guarded private warehouses. The reduction in insurance rates is often a very worthwhile saving. In some instances savings as high as 90 per cent are reported in insurance rates, as between poor private warehouses and good public warehouses.

The public warehouse is especially adapted to the needs of a seller who wishes to carry regional stocks of goods and who does not have enough goods at the various storage points to justify maintaining his own warehouses in charge of his own employees.

Public warehouses render other services for their patrons. They will receive goods in carlots and ship them out in less-than-carlots. They will pack or crate the goods when necessary. They will issue invoices, and ship goods on a C. O. D. basis or draw drafts to accompany shipments made on order bills of lading. Extra charges are made for such services.

Liability of public warehouses.—Public warehousemen are liable for goods only in case the goods are destroyed or damaged because of their negligence. For this reason, goods in public warehouses are usually insured. The warehousemen must ordinarily return to the owner the identical goods placed in storage. An exception is made in the case of goods such as grain, which may be mixed with other goods of the same grade. In this case the warehouse must deliver only the same quantity of the same grade of goods. Goods which may be mixed with similar goods are known as *fungible* goods.

Charges of public warehouses.—The public warehouse bases its charges on the space occupied by the goods, the length of time they are kept in storage, and the cost of moving them in and out of the warehouse. Extra charges

are made for the labor in making shipments, packing goods, making invoices, and so forth.

In addition to these charges, extra charges are made for goods that require unusual care or that must be stored under special conditions. These extra charges are known as "modifications for cause." Examples are furnished by silk, which has a very high value; by mirrors, which are very fragile; by beans, which are attractive to vermin; by onions and green hides, which are malodorous; and by liquids, which are subject to leakage.

General merchandise warehouses generally make a handling charge for moving goods in and out and a monthly storage charge for the time the goods are left in storage. Cold storage houses make a charge for the first month high enough to cover the cost of handling the goods. A lower charge is made for each additional month the goods are left in storage.

Typical rates are:

Commodity	Merchandise Houses	
	Handling Charge In and Out	*Monthly Storage Charge*
Canned vegetables, per case (# 2 size)	2¼¢	1½¢
Flour, per barrel (200 pounds)	17½¢	10¢
	Cold Storage Houses	
	First Month's Charge	*Each Additional Month's Charge*
Eggs, per case (30 dozen)	10¢	5¢
Butter, per 100 pounds	25¢	15¢

Government-licensed warehouses.—The Federal Government licenses warehouses to store certain stable farm products such as grain, tobacco, cotton, wool, peanuts, broomcorn, and dried fruits. The warehouses are operated in accordance with rules established by the Government, and products stored in such houses are graded

according to Government standards. The warehouse receipt covers a definite quantity of staple goods of known grade, so the receipts issued by these warehouses are preferred collateral for loans. Banks will loan more on them than on ordinary warehouse receipts and may make loans at lower rates of interest. It is argued that the Government should extend the use of licensed warehouses to staple manufactured goods.

Packing

Goods are packed for transportation and storage, so that they can be handled and protected from damage or loss. They may be wrapped, crated, or placed in bags, bottles, barrels, or other containers. Liquids must be placed in tight containers. Fragile goods must be packed with special care or placed in special containers.

Standardizing

Standardizing is the fixing of specifications for quality. Standards designate quality and may be based on weight, physical structure, chemical content, size, sweetness, ripeness, soundness, strength, or moisture content. Standards facilitate the exchange of goods. When goods are of known quality, they can be bought and sold by grade, name, or description. Standards thus save the labor of repeated inspections.

Standard goods have a more definite value than non-standard goods and can be handled with less risk. Prices are more accurately known. Banks will loan more on the security of standard than of non-standard products. With standardization there is less room for puffing, boasting, or bragging by the sellers. Middlemen can handle standard goods on narrower margins than they can non-standard goods. Buyers can secure better values.

Uniform standards.—A standard product should be of a known quality no matter where it is produced or bought. For instance, No. 2 yellow corn, No. 3 soft winter wheat, fancy yellow cling canned peaches, and size 2 ex-std. canned peas should be of a known quality, regardless of who the producer is.[2] This fact suggests the need for uniform standards which may be set up by custom, by trade associations, or by government agencies.

Wastes caused by lack of standards.—Some argue that a lack of standards leads to one of the largest wastes in distribution, which runs into billions of dollars annually. According to this argument, small buyers, especially the consumers, are consistently overcharged because of their ignorance of quality. Instances are cited of relatively simple products that are sold by advertising and "high-pressure" methods to consumers for several times their cost. The list of products includes medicines, insecticides, cleansers, foods, pens, clothing, office supplies—in fact, practically all types of articles.

> Thymol plus small quantities of boric and benzoic acid under the name of Listerine sells for $1 a bottle, while $495 worth of Listerine has the antiseptic qualities of 1¢ worth of corrosive sublimate or 33¢ worth of carbolic acid. A disinfecting spray made of formalin, perfume, and water sold for $62 a barrel. When its composition became known it dropped to 47

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[2] Some have contended that standards are set up by producers of advertised brands. Campbell's soup is supposed to be the same regardless of whether it is bought in New York or China. In one sense of the word, standards are established by advertising, as the buyers know what to expect whenever or wherever they buy an advertised brand. On the other hand, there is no assurance that Campbell's soup is of the same quality as Heinz soup or Hormel soup. It is doubtful whether products sold under the manufacturers' brands without uniform grade designations should be called "standards."

cents. University purchasing agents found that they were paying from 65¢ to $6 a gallon for the same quality of alcohol. A pooled order of 5 cars was bought at 25¢ a gallon. A floor varnish costing $1.70 a gallon was found as durable as one selling for $6. The manufacturer of a moth killer paid 1/20¢ a pint for his raw materials and sold his product for $1 at retail.—Chase, Stuart, and Schlink, F. J.: *Your Money's Worth,* 1927.

Large corporations that purchase in large lots often set up their own testing laboratories and buy at much lower prices than are charged to buyers not so fortunately situated. It is argued that huge sums could be saved if definite standards were drawn up and all producers were required to label their products with their proper grades. It would then be possible for the consumers to determine the grade which they wanted and to buy this grade from the seller at the lowest price. Competition would be placed on a price basis, and large expenditures for advertising and salesmanship would be greatly reduced.

Thus runs the argument, and there appears to be considerable truth in it. Opportunities for large savings are possible, even though all the savings claimed might not be realized. All products cannot be standardized. Some products are bought for their individuality. Producers make goods of various styles, colors, and flavors, and they would be likely to advertise their goods as having better or distinctive qualities. It would take several years and considerable expense to educate the great majority of the people to buy by grade.

Standardization should be encouraged, although all of the advantages claimed by its advocates may not be realized.

Grading

Grading is closely associated with standardizing. The two are often considered as two aspects of the same function. Standardizing is the setting up of rules or specifications. Grading is the application of these rules—the physical work of inspecting, testing, or sorting goods in accordance with the specifications.

Goods may be graded in two ways. First, they may be inspected to determine their quality. The inspector may look at the goods, feel of them, taste them, or take samples for weighing, measuring, or chemical analysis. As a result of the inspection, a definite grade is assigned. The wheat may be *No. 2;* the potatoes, *No. 1;* the cotton, *strict good middling;* the butter, *92 score;* or the canned goods, *fancy.*

Second, grading may involve the sorting or separating of the goods according to quality. Apples may be sorted so that only apples of one size will be placed in the same basket.

Assembling

Assembling is the bringing together of similar goods to obtain larger quantities for shipment or sale. The country elevator brings together wheat in quantities large enough so that it can be shipped in carloads. The cotton merchant brings together enough cotton to be able to supply the mills with large lots of uniform quality. Assembling is important for goods produced in small quantities, such as farm products.

Dividing

Dividing is the separating of goods into smaller lots for sale; it is the converse of assembling. To illustrate,

the wholesaler receives a carload of eggs, and since the ordinary retailer cannot use a carload at one time, the wholesaler divides the load and sells it to retailers by the case. The ordinary consumer does not want a case of eggs at one time; hence the retailer divides the case and sells the eggs to consumers by the dozen.

Dividing should not be confused with grading. Goods may be separated in grading, but this separation is done on the basis of quality. In dividing, goods are sorted not according to quality but merely to get them into the smaller lots desired by the buyers.

Financing

All business concerns, in both marketing and production, must be financed. Capital is needed to carry stocks of goods, to extend credit to buyers, and to pay operating expenses. Sound financing is very important to the success of a business. The capital needed for carrying stocks of goods will be considered later in connection with stock turnover. Granting credit wisely and collecting accounts closely will limit the amount of capital needed for extending credit to customers. Financing is not exclusively a market function; it is generally studied as a separate subject. Hence it will not be treated extensively in this volume.

Risking

Risk is inherent in all business transactions. Distribution involves many risks—risks from the ownership of goods; liabilities for injury; risks from financial transactions; risks on contracts; risks from death, accident, sickness, and resignation of workers; and risks from the weather. These risks may be grouped as follows:

A. Ownership risks:
   1. Drop in value of goods because of decline in price;
   2. Change of fashion, meaning goods must be sold at a loss;
   3. Fire—goods may be burned, or damaged by smoke or water;
   4. Theft—goods may be stolen or embezzled;
   5. Storm—goods may be damaged by flood, tornado, lightning, moisture, earthquake, hail;
   6. Decay;
   7. Vermin;
   8. Heat or drouth;
   9. Change in demand—goods become unsalable or must be carried in stock for long periods because of business depression, unemployment, strikes, crop failures, local catastrophies·
   10. Violence—damage by mob.

B. Financial risks:
   1. Accounts and notes may become uncollectible;
   2. Theft and embezzlement of money;
   3. Bank failures may cause loss or cut off sources of credit.

C. Liabilities for injury:
   1. Trucks or salesmen's cars may injure persons or damage property;
   2. Customers may be injured on premises;
   3. Goods sold may be defective and injure the buyers;
   4. Employees may be injured while at work.

D. Liability on contracts:
   1. Coupons or tickets have to be redeemed;
   2. Cost of fulfilling future contracts may increase as a result of an advance in wages or prices of materials;
   3. Default of others may involve loss on joint contracts;
   4. Guarantee of goods may involve loss on replacement of repairs.

E. Liability of loss of key men:
   1. Important managers or skilled workers who have had expensive training may die, become sick, be injured, or resign.

F. Weather risks:
   1. Sales may be lost because of bad weather.

Why risks are assumed.—Men are willing to assume such risks in the hope of making a profit. The greater the risk, the greater must be the anticipated profit, to induce men to assume the risks. Risks are also taken unconsciously by business men.

Shifting risk.—Many of the risks enumerated above may be shifted to insurance companies. The business men thus do not have to carry all of these risks themselves. Many insure against fire, tornado, theft, automobile accidents, and injuries to employees. Some carry insurance against other hazards, such as embezzlement by employees, rain, hail, and losses from bad debts. Certain risks, like changes in fashion and drops in prices,[3] cannot be insured.

When risks can be shifted to insurance companies, the cost of the premiums can be included in operating expenses. Men are then willing to work for smaller profits. Insurance companies can often base their rates on average losses, and such rates may be less than the anticipated earnings necessary to induce individuals to accept the risks. A merchant might be ruined if his store burned without insurance. The risk is so great that he feels he cannot carry it himself, so he shifts this risk to an insurance company. He feels safer and does not need

[3] In the case of some staple commodities, like wheat, corn, cotton, silk, coffee, and rubber, which are bought and sold for future delivery on organized exchanges, the owner can largely shift the risk of price declines by future sales. Such transactions are called *hedging*. Hedging is discussed in Chapter 6.

such a large profit to induce him to stay in business. The margin of cost of marketing is thus reduced.

The insurance company must charge more than enough to cover its risks. It has expenses for selling, overhead, and adjustments. Such expenses may equal from 25 to 100 per cent of the losses paid, and one must therefore pay more for insurance than the cost of the risk involved. For this reason, most business men prefer to carry some risks themselves. Usually they carry the risks which they feel are less likely to cause losses, and, of course, they must also carry the risks that cannot be insured.

Guarding against risks.—The business man can do much to reduce the amount of risk. Fire damages are lessened by fireproof buildings and automatic sprinklers. Risk of theft is reduced by good locks and vigilant watchmen. Losses from bad debts may be reduced by a careful check on applicants for credit and an aggressive collection department. Risk of changes in fashion may be limited by careful fashion forecasting and the purchase of fashion goods in small quantities. Loss from price declines may be lessened by detailed market forecasting and a rapid turnover of stock. Injuries to employees may be reduced by safety devices and the education of workers.

Risk increases marketing costs.—Risks account for a part of the high cost of marketing. The importance of risk may be easily seen when the dealer handles fashion merchandise or perishable goods. Such goods may drop in value, or become unsalable as a result of changes of fashion or decay, which occur very quickly.

Recording

Accounting, or recording, is necessary in many transactions: filling out sales slips, order blanks, stock rec-

ords, invoices, bills of lading, and want slips; posting customers' ledgers; recording expenses; and analyzing expenses. Cost accounting has had a wide development during the past 35 years. It began as a part of scientific management and has contributed much to increased business efficiency. It is just now being seriously applied to marketing activities.

The business man is often at a loss to know just how full and complete records he should keep. Accounting involves expense, but it gives facts upon which the business man can base his operations. The present opinion is that most business concerns have devoted too little attention to accounting in the past. Records can be used to reduce expenses and increase profits. Full records are often needed. On the other hand, time should not be spent in keeping records that are not used.

Management

All business enterprises must be managed or supervised. Policies must be formulated; plans made; employees hired, trained, and supervised. The manager of a marketing enterprise must decide what types of goods are to be bought, what price policies are to be followed in selling, where the business is to be located, the credit policy to be followed, and how competition is to be met. Management is necessary in performing the various marketing functions—in moving goods from producers through the channels of trade to the ultimate consumers.

Concentration and Dispersion

In the marketing process, goods are often brought together in large markets. From these markets they are taken to consumers. The bringing together of the goods

is *concentration*—a process made up of several functions. It may include buying, transporting, storing, assembling, financing, risking, and other functions. The process of

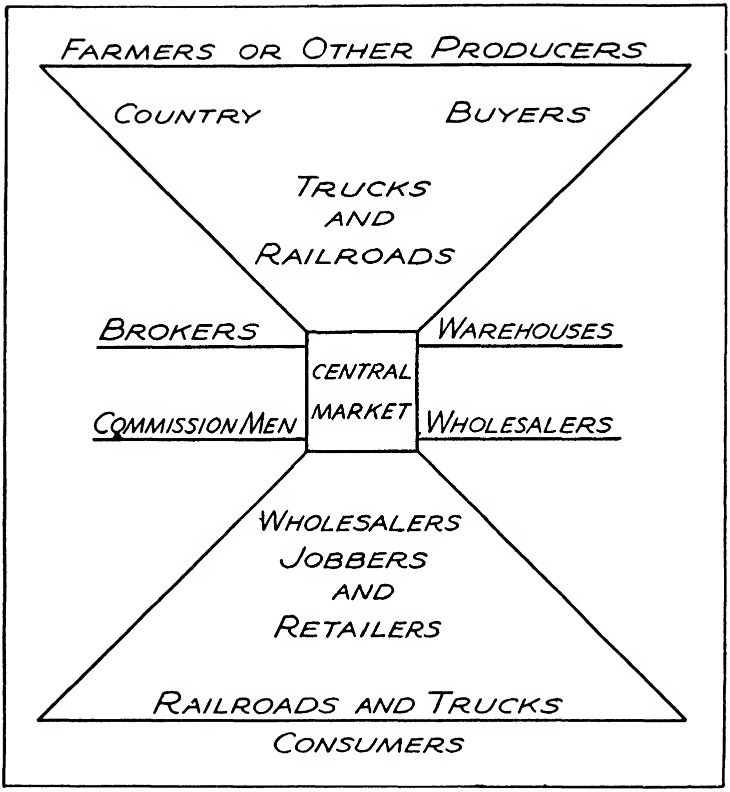

Fig. 2.—Chart illustrating concentration and dispersion. This represents the trade channel for farm products which reach the consumers without being manufactured. Such products are concentrated into central markets from which they are dispersed to the consumers.

taking goods from these large markets to the consumers is *dispersion,* which may include several functions—dividing, selling, transporting, financing, risking, and others.

Chapter 3

Review Questions

1. Of what service is storage? What does it create?

2. How does storage even up the supply of seasonally produced goods? Of seasonally consumed goods?

3. How does storage give protection against interruptions in production? Against interruptions in transportation?

4. How is quick freezing affecting marketing?

5. How does storage affect price? Illustrate with the price of butter.

6. How do warehouses and railroads compete?

7. How does improved production lessen the need for storage?

8. What factors should be considered in determining where goods should be stored?

9. What effect do freight rates have on the selection of a place for storing goods?

10. Should the farmer sell his products at harvest or hold for sale toward the end of the season?

11. What is a public warehouse?

12. What are the types of public warehouses?

13. What are the advantages of storing goods in public warehouses?

14. What is the liability of a public warehouseman?

15. How do public warehouses charge for their services?

16. What are the advantages of storing goods in a Government-licensed warehouse?

17. What is meant by packing? In what different ways are goods packed?

18. What is grading? How does it differ from standardizing? How are goods graded?

19. What is meant by assembling?

20. What is meant by dividing? Why is dividing necessary?

21. What is the difference between dividing and grading?

22. What is meant by financing?

23. What is risk?

24. What risks are involved in marketing?

25. How can risks be reduced? Shifted?

26. What is meant by recording? How is it involved in marketing?

27. What is management? What does it involve?

28. What is meant by concentration? By dispersion? What does each involve?

Thought Problems

1. Do you believe that improved methods of transportation and production will make it unnecessary to store goods for long periods?

2. It has been said that storage reduces the price received by the farmer for his goods by increasing the supply of goods on the market. Discuss this statement.

3. It has been said that storage increases the price to consumers by increasing the demand at certain seasons owing to the demand for goods to place in storage. Discuss.

4. As a manufacturer distributing goods nationally, how would you go about determining at what points you should carry stocks of goods for distribution to retailers?

5. What advantages would follow the establishment of Government-licensed warehouses for manufactured goods? It has been said that the Government is unfair in establishing such warehouses for farm products and not for manufactured products. Do you agree?

6. Does insurance reduce marketing costs? Would it be desirable for the business man to shift all possible risks to insurance companies? Why or why not?

7. What is meant by cost accounting? What has it done for manufacturing during the past years? Do you believe that it can make any equally valuable contribution to marketing?

8. Large-scale production is said to reduce production costs. Large-scale production means the concentration of production in a few large plants. These plants are located at a distance from many consumers. These large companies are said to have high distributing costs as a result of the "high-pressure" selling necessary to sell enough goods to keep their plants operating at capacity. Goods must be transported for long distances. Distribution costs are said to be increased. Do you agree? Granting for the moment that distribution costs are increased, are the consumers injured by the increased costs? Why or why not?

Chapter 4

Middlemen, Trade Channels, and Commodities

The middleman approach.—The study of middlemen (or market institutions) shows what goods the middlemen handle and what services (functions) they perform. This approach is a practical method of studying market distribution. It shows how these middlemen conduct their operations and thus is helpful to men engaged in marketing.

There are many types of middlemen: wholesalers, jobbers, brokers, sales agents, commission merchants, milk dealers, coal dealers, lumber yards, terminal elevators, filling station operators, garages, cotton buyers, tobacco and fruit auctions, grain elevators, live stock shippers, farmers' coöperative associations, mail-order houses, chain stores, department stores, general stores, drug stores, hucksters, neighborhood stores, cigar stands, ice cream parlors, restaurants, soda fountains, news stands, florist shops, and so on. In order to study middlemen, it is desirable that they be grouped or classified in some way.

Kinds of middlemen.—Those individuals, partnerships, and corporations engaged in marketing are known as middlemen. There are two principal kinds or classes of middlemen: First, those who own the goods—that is, have legal title to them. These middlemen are merchants in that they buy and sell goods in an attempt to make a

profit. In addition to other marketing functions, they assume the risks involved in the ownership of goods. Second, those who are agents—who do not own the goods but perform certain marketing functions for pay. These are called *functional* middlemen for the reason that they perform marketing functions without assuming the risks of ownership.

Merchants.—There are many types of merchants. We may group them broadly into three main groups: country shippers, wholesalers, and retailers.

Country shippers.—The country shipper is engaged in buying farm products, assembling them at country points, and shipping them to central markets. Country grain elevators and warehouses, live stock buyers, specialized produce dealers, creameries and cream stations, and cotton buyers are examples of country shippers. These are discussed in Chapters 15–18.

Wholesalers.—Wholesalers are merchants who buy goods and sell to other merchants and to manufacturers. They operate between country shippers and manufacturers on one side, and retailers and industrial buyers on the other side; they do not sell to the final consumers. There are many types of wholesalers. Some have warehouses and others handle goods in railroad cars or public warehouses. Some wholesalers have organizations of traveling salesmen and make deliveries to the buyers; others operate on the cash-carry basis. Some wholesalers are privately owned and operated for profit; others are owned by retailers. Some wholesalers handle full lines of goods, and others handle only a few items. Some handle industrial equipment and sell to industrial buyers, while others handle consumption goods and sell to retail dealers. The operation of wholesalers is discussed in Chapter 7.

Retailers.—The retailer is the middleman who sells direct to the household consumer. He is the most familiar type of middleman. There are many types of retailers: chain stores, department stores, news stands, mail-order houses, lunch rooms, restaurants, coal yards, soda fountains, neighborhood stores, stores handling shopping lines, and stores handling convenience goods.

Retail stores may be classified in many ways, but for our purpose we shall classify them as individual or unit stores, department stores, mail-order houses, chain stores, wagon retailers, and bulk retailers.

Functional middlemen.—The functional middleman is an agent who performs certain definite marketing functions for pay without owning the goods—that is, without having title to them. He works for definite pay and does not buy and sell for profit. Such middlemen may be grouped according to the functions performed. A partial list follows:

Buying—purchasing agents, brokers, resident buyers.

Selling—brokers, sales agents, commission merchants, selling houses, manufacturers' agents, auctioneers, advertising agencies, market counsellors, and market research agencies. Few of these agents perform all divisions of the selling function.

Transportation—railroads, trucking companies, steamship companies; electric railways; air transport companies; package delivery companies.

Storage—public warehousemen; commission merchants.

Grading—licensed inspectors, commission merchants, testing laboratories, appraisers.

Dividing—commission merchants, public warehousemen.

Financing—finance, credit, and discount companies; banks; sales agents; collection agencies; factors or commission merchants.

Risking—insurance companies.
Recording—public accountants, market research agencies.

The operations of common carriers and public warehouses have already been discussed in describing the transporting and storing functions. The operations of brokers, sales agents, and commission merchants are described in the next chapter.

Trade channels.—Goods ordinarily pass through the hands of one or more middlemen between the producer and the consumer. The trade channel is made up of the middlemen who handle an article on its way to the consumer. We may include in the trade channel only the merchants who have title to the goods, or we may include, in addition to these, all those who perform any marketing function. If the latter course is followed, we would include the physical movements of the goods by railroads, truckmen, warehousemen, and others; financing of goods by banks and finance companies; assuring of risk by insurance companies; storing goods by warehouse; and so on for all other marketing functions. This would give longer and more complicated channels. We are ordinarily more interested in following the ownership of the goods rather than their physical movement, and we shall therefore think of the trade channel as composed of only those middlemen who buy and sell, regardless of whether they are the owners of the goods or whether they act as agents for the owners.

Manufactured goods.—We may follow the trade channel of an article from the producer of the raw material through the various middlemen and manufacturers to the consumer of the final product. This often makes very long and complicated trade channels, as many products go through several manufacturing

processes. Often a single raw material makes several products, while, in other cases, it takes several raw materials to make one finished product. For these reasons it is simpler to consider that a trade channel extends from the producer of an article to the consumer of this article, whether the consumer be the manufacturer or the household consumer of the final product. Thus the trade channel for wheat extends from the farmer to the flour mill, while the trade channel for flour extends from the flour mill to the baker, and the channel for bread extends from the baker to the final consumer. There is thus one trade channel for wheat, another for flour, and a third for bread.

Trade channels illustrated.—The shortest possible trade channel is found when the producer of goods sells them to the consumer—for example, when a farmer sells his goods to the consumer. Goods, however, commonly pass through the hands of one, two, three, four, or more middlemen.

Only one middleman may be included when the farmer sells his eggs to the retailer or when the manufacturer sells his shoes to the shoe dealer. Manufacturers often sell to wholesalers who sell to retailers. This trade channel involves two middlemen, the wholesaler and the retailer. This channel is followed by many manufactured products. The manufacturer, however, often reaches the wholesaler through a broker, which involves three middlemen: broker, wholesaler, and retailer.

Four middlemen are involved in the sale of many farm products. These middlemen may be a country shipper; a commission man or broker; a wholesaler or jobber; and a retailer. Imported goods may pass through the hands of the importer, broker, wholesaler,

and retailer, in addition to middlemen in the exporting countries. Longer trade channels than these are not unusual. Eggs, for example, may be handled by two or three middlemen in the country and three or four middlemen in the city markets.

Factors determining the trade channel.—Some of the factors that determine the channel a product follows are: distance between producer and consumer; perishability of product; number of products sold by the seller; scale of production, that is, whether the goods are produced on a small or large scale; scale of consumption; financial position and size of seller; and the need for special facitities for handling the product.

The greater the distance between producer and consumer, the longer the trade channel is likely to be. A highly perishable product must be marketed quickly, and may hence have a shorter trade channel than a non-perishable product. Manufacturers of ice cream and bread, for example, usually sell either to the retailers or to the consumers. The manufacturer of a large number of products is likely to carry the product nearer to the consumer than is the manufacturer of a single product.

Goods produced on a small scale, like farm products, must be assembled. This often increases the length of the trade channel. Large or well-financed sellers may perform more of the marketing functions and carry the goods further along the trade channel than smaller concerns.

When goods need special facilities for handling, the seller must either provide and operate these facilities or sell through middlemen who provide them. Very often these facilities are supplied by the manufacturer. Gasoline must be stored in tanks and delivered to the

retailers in tank trucks. The oil refiners commonly provide these facilities and perform the wholesale functions. Fresh meat must be kept in cold storage warehouses; many of these are provided by meat packers, who handle the meat until it reaches the retailers.

Sale in same stage of distribution.—Sales are often made in the same stage of distribution, that is, between similar middlemen who perform the same functions. Such sales do not pass the goods on toward the consumer and are frequently made for speculative purposes. By this is meant that the buyers attempt to make a profit out of a change in price and not by performing a service. Such speculative sales are ordinarily condemned, although it is argued by some that they tend to stabilize prices.

There are sales in the same stage of distribution that do not involve speculation, as when one dealer overbuys and another underbuys. To illustrate, we shall assume that a wholesaler estimates that during a season he will sell 3,000 cases of peaches and buys this quantity. His sales are less than expected, and toward the end of the season he finds that he is overstocked. He notifies a broker who finds another wholesaler who needs the peaches and makes the sale. The peaches are still in the same stage of distribution, and no closer to the consumer than when they were in the hands of the first wholesaler. Yet the sale resulted from misjudgment and not speculation. If, on the other hand, the wholesaler had bought more peaches than he expected to sell to his customers because of an expected advance in price, he would have been a speculator on the extra peaches.

Integration.—Integration means the operation of successive steps, or stages, in the production or mar-

keting of goods, by one concern. In regard to marketing, we think of an integrated concern as operating the machinery for carrying the goods through two or more stages of distribution.[1] Thus the manufacturer who sells to the retailers is integrated in that he performs the wholesale functions in addition to the manufac-

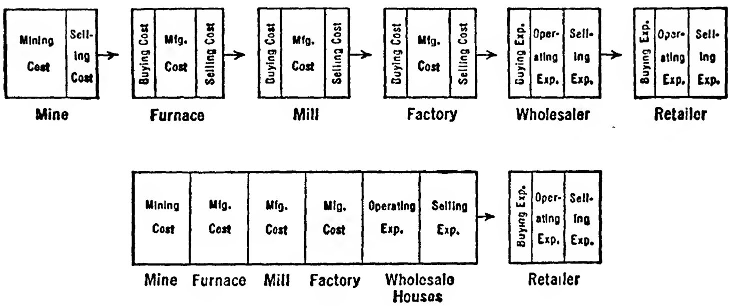

Fig. 3.—The advantages of integration. Chart showing how the trade channel is simplified and how successive buying and selling expenses are eliminated by integration. *Above*—trade channel without integration; *below*—trade channel of a concern integrated from the production of raw material to the retailer.

turing functions. The chain store is integrated in that it operates both wholesale warehouses and retail stores. Many manufacturers are integrated and operate both factories and wholesale stores.

Integrated concerns have two important advantages: First, they eliminate the cost of buying and selling goods between the different parts of the organization. Thus in an integrated industrial concern, the mine does

[1] This is called vertical integration. Some call the consolidation of similar concerns horizontal integration. Thus if several steel mills combine, the consolidated company is said to be horizontally integrated. The consolidated concern may make some savings by reducing the number of salesmen and the amount spent for advertising. Such savings, however, are not always realized. These concerns may attempt to control prices, for which reason they are often frowned upon by consumers and the Government.

not have to sell to the furnace, the furnace does not have to sell to the rolling mill, the rolling mill needs no salesmen to sell to the foundry, and so on with successive manufacturing stages. Similarly, the chain store needs no salesmen to sell to its retail stores, and the retail store managers spend little time interviewing salesmen, as they requisition most of their goods from their warehouses.

Second, risk is reduced as markets are more definitely assured. This enables operations to be planned with greater assurance and the plants to be operated more evenly. Mines owned by an integrated concern know that they have an outlet for their products so long as the factories operate. The wholesale houses of chain stores buy with assurance, knowing that they have a definite demand from their retail stores.

Limitations on integration.—In order to secure the full advantage of integration, the various parts of a concern must be coördinated. Suppose a department store operates a blanket factory. There is no cost in selling the blankets to the department store. If, however, the store is unable to sell all the blankets made by the mill, selling expense is incurred in selling the remaining blankets. Again, an integrated concern may be poorly managed because of the variety of its operations. The hired manager of the department store's blanket mill may be less efficient than the owner of a similar mill whose organization is devoted entirely to the operation of the mill.

The commodity approach.—In order to use the commodity approach, commodities must be classified. If we should attempt to study each individual commodity, such as coal, tobacco, canned vegetables, leather belting, candy, wheat, hay, butter, patent medicines, nails, ice, automobiles, radios, carpets, and so on, our study would

be almost endless. It would involve long descriptions and much duplication of material. Many commodities are handled by the same middlemen or go through the same trade channel and involve similar functions.

Basis of classification.—Goods may be classified in accordance with their origin or the way they are produced; the way they are consumed; method of purchase; or their physical characteristics.

As to origin, goods may be classified as farm products, mineral products, forest products, fishery products, partly manufactured products, and completely manufactured products.

As to method of consumption, goods may be classified as raw materials, partly finished materials, industrial equipment, and consumers' goods.

With respect to method of purchase, goods may be classified as to the elasticity of demand, the stability of demand, the frequency of purchase, and the buying habits of the consumers.

As regards physical characteristics, goods may be classified as to bulkiness, concentration of value, perishability, fragility, size, mechanical complexity, need for mechanical service, and durability. A combination of these methods seems best adapted to our purpose.

A classification of commodities.—

I. Farm products:
  a. Grain
  b. Livestock
  c. Dairy products—milk, butter, cheese, etc.
  d. Poultry and eggs
  e. Cotton
  f. Fruits and vegetables
II. Industrial goods:
  a. Equipment (machinery)
  b. Supplies

    c. Raw and partly finished goods (aside from farm products)
    d. Fabricated parts
III. Consumption goods:
    a. Convenience goods
        1. Staple necessities
        2. Impulse goods
    b. Shopping goods
    c. Wagon goods
    d. Bulk goods

Farm products.—Farm products are produced on a small scale by large numbers of farmers, and hence must be concentrated. That is, large quantities must be brought together to supply city markets or as raw materials for factories. Most farm products are industrial goods as they come from the farm but become consumers' goods after manufacture.

Industrial goods.—Industrial goods are goods used for further production; they are not, therefore, sold to the ultimate consumers. The buyers are factories, mines, mills, and offices. Industrial goods include such things as raw materials, partly manufactured goods, machinery, fuel and lubricating oils used by factories, typewriters, and other office equipment.

Consumers' goods.—Consumers' goods are bought by the ultimate consumers, ordinarily in very small quantities from a retailer.

Convenience goods.—Convenience goods are usually staple products bought frequently, and of small unit value. Convenience goods are so called because the consumers generally buy them in convenient places without spending time in shopping. Examples of convenience goods are groceries, drugs, and newspapers. Some convenience goods, such as candy, soda water, and novelties, are bought largely on impulse.

Convenience goods should be handled by stores located where they are easily accessible to the buyers. This may mean neighborhood locations in the residential districts for groceries, on a busy down-town corner for tobacco and newspapers, or near the business offices for lunchrooms. The person buying convenience goods usually knows what he wants before he enters the store.

Shopping goods.—Shopping goods usually have a relatively large value and are bought at infrequent intervals. The consumers attach so much importance to shopping goods that they are willing to devote considerable time to their purchase. This often means that the consumers visit many stores and compare the goods and prices of different sellers. This may be done to secure goods adapted to the needs of the buyers, or to secure the best prices. Suits, coats, dresses, furniture, rugs, jewelry, automobiles, women's shoes, and millinery are examples of shopping goods.

Shopping goods are generally sold by stores located in the shopping districts and near other stores handling similar goods. The buyers like to shop where there are several stores so that they can compare goods and prices. Shopping stores need large assortments of goods to enable the buyers to make selections.

Wagon goods.—Some perishable goods are consumed regularly by the consumers. Such goods are often sold from wagons. Milk, ice, bakery products, fruits, and vegetables are examples.

Bulk goods.—Some goods are too bulky to be handled by the ordinary type of retail store. The dealers in these commodities are often located on railroad sidings so that the goods can be unloaded directly from the cars into their yards, buildings, or trucks. Coal, lumber, feed, sand. stone, cement, and fuel oil furnish examples.

Such goods are often sold by telephone or by salesmen who visit the buyers. Although classed as consumption goods in our outline, bulk goods are sold to both consumers and industrial buyers.

Organization of material.—We shall consider the operation of various types of middlemen in the following chapters. More attention will be given to middlemen engaged in the distribution of consumer goods than to those who handle industrial goods. However, many dealers handle both classes of goods. The student should keep the classification of commodities constantly in mind while considering the operations of the various middlemen.

Following the chapters on middlemen, we shall discuss the distribution of industrial goods and farm products. The distribution of these commodities differs in many important respects from the marketing of consumers' goods.

Chapter 4

Review Questions

1. What is meant by the middleman approach to the study of marketing?

2. Name different types of merchants.

3. Define functional middlemen.

4. What are country shippers? What functions do they perform?

5. Name types of wholesalers and retailers.

6. Name different types of functional middlemen.

7. What is meant by a trade channel?

8. What factors determine the trade channel followed by different products?

9. Should we attempt to make one trade channel include the marketing of products all the way from the producer of the raw material to the consumer of the finished product?

10. What is meant by a stage of distribution?

11. Give illustrations of trade channels involving one, two, three, and four middlemen.

12. Why are goods sold in the same stage of distribution?

13. What is meant by integration?

14. What are the advantages of integration? How may it reduce marketing costs?

15. What are the limitations on integration?

16. Distinguish vertical and horizontal integration.

17. What is meant by the commodity approach to the study of marketing?

18. In what ways may goods be classified for study? Give a classification.

19. What are the characteristics of farm products?

20. What are industrial goods? Who are the buyers?

21. What are consumers' goods?

22. What are convenience goods?

23. What types of stores handle convenience goods?

24. What are shopping goods?

25. What type of stores handle shopping goods?

26. What are wagon goods?

27. What are bulk goods?

Thought Problems

1. What are the advantages and disadvantages of the commodity approach to the study of marketing?

2. What are the advantages and disadvantages of the middleman or institutional approach to marketing?

3. What types of goods are the following: locomotives; ice; men's work shoes; women's dress shoes; overalls; filing cabinets; washing machines; coal bought by a factory; coal bought by an individual consumer; pig iron; iron ore; cotton; corn for manufacture into cornstarch; sugar for manufacture into candy; silk hosiery; men's suits; women's silk dresses; typewriters; cigarettes; milk; butter?

4. A wholesale dry goods house operates mills producing cotton cloth, towels, sheets, sweaters, blankets, cotton and rayon hosiery, and house dresses. It normally sells to retailers the entire output of the plants making towels, sheets, hosiery, and house dresses. A considerable portion of the outputs of the other plants must, however, be sold to other wholesalers, chain stores, and other large buyers.

(*a*) Is this concern integrated? Is marketing cost reduced by the ownership of the factories? Do you believe that this wholesale house can operate these various factories as efficiently as they could be operated by independent companies?

(*b*) This wholesale house decides to open a chain of retail stores. The chain can be supplied very largely from the wholesale house and will help to utilize the outputs of all the factories. Will the establishment of this chain of stores enable goods to be marketed more cheaply than when the wholesaler sold to independent retailers? Will the consumer be benefited?

5. Why are functional middlemen used in the marketing of goods?

6. A wholesaler estimates that he will sell, during the following winter, 4,000 cases of eggs. He buys 5,000 cases and places them in cold storage. He sells only 3,000 cases to his regular trade. He therefore has a broker sell the other 2,000 cases to another wholesaler. Was this wholesaler a speculator?

7. The National Biscuit Company manufactures a line of cookies, crackers, and other bakery products. It maintains a large number of distributing houses from which it operates trucks to supply its goods direct to the retail stores.

What factors cause the National Biscuit Company to use this method of distributing its products?

8. Maryland tomato canners often employ sales agents who sell their entire outputs. Why is this sales method employed?

9. The large meat packers commonly operate branch houses from which they sell their meats to the retail butchers. Why?

Chapter 5

Brokers and Other Agents

The agent.—An agent is one who acts for another. The owner of goods may sell them himself, may hire a salesman to sell them, or may have them sold by an agent called a broker.

The broker.—A broker is an agent whose regular business is to negotiate sales or purchase contracts between buyers and sellers without having title to the goods. He is an independent salesman who specializes in selling or buying for others. He is an agent (functional middleman) who performs the selling (or buying) function without owning the goods. He does not ordinarily have possession of the goods. His task is to make contracts between buyers and sellers as to price and other terms of sale. He usually operates in only one trade and deals in relatively few commodities, which are often raw materials or staple consumers' goods. His commission is ordinarily earned when the contract is made, whether or not the goods are later delivered. The broker is often thought of as a free lance agent who sells (or buys) for anyone who has goods for sale.

The sales agent.—The sales agent is a broker who usually sells the entire output of the producers whom he represents and with whom he maintains continuous relations. He may sell only certain of the lines produced by his principals (manufacturers or other producers) or may represent them only in a limited territory. A

sales agent is usually much closer to his employers than is the broker. He may finance them and may have full authority in naming the selling price of their goods. He usually receives a higher rate of commission than the broker and so has a greater interest in their success.

Buying.—Buyers situated outside the large markets often employ buying brokers in these markets to make day-to-day purchases between their own visits to the markets. In some trades, goods are made by small specialty producers. For example, the hardware wholesaler often handles goods made by 1,000 or more producers. Many of these producers are too small to keep in constant touch with the wholesalers. The hardware wholesalers therefore often employ purchasing agents to make purchases and to give information regarding prices and sources of supply.

Resident buyers.—Resident buyers are purchasing agents in central markets who represent out-of-town department and apparel stores. They purchase goods, especially apparel, for the stores between the visits of their buyers; find goods for the buyers' inspection; notify them of bargains; and otherwise represent the interests of the stores. Most of them are paid commissions or monthly fees by the stores they represent, but some receive their commissions from the sellers.

Commission merchants.—The commission merchant is an agent who receives goods for sale on a consignment basis. He has the goods in his possession, sells them, and accounts to the owner for the proceeds of the sale. The distinction between the broker and the commission merchant is that the commission merchant has possession of the goods. The commission merchant stores, delivers, and often divides the goods; transfers title; collects payment and deducts his commission and ex-

penses, such as freight; and remits the balance to the shipper together with an "account sales" of the transaction. The distinction is clear, but it is not observed in the language of all trades. In the grain trade, for example, grain is consigned to so-called "brokers" who are in fact commission merchants.[1]

Manufacturers' agents.—Manufacturers' agents, as defined by the Census Bureau, are a type of broker who maintains continuous relations with the manufacturers whom he represents and sells their products in specified territories at prices named by them. They occupy a position between the free lance broker and the sales agent.

Types of brokers.—Brokers sell (or buy) merchandise, stocks and bonds, real estate, and insurance. Brokers selling goods are called *merchandise* brokers to distinguish them from brokers selling securities, insurance, and real estate. Our discussion in this chapter will be limited to merchandise brokers. Brokers sell nearly all kinds of merchandise. They are found selling sugar, chemicals, canned foods, dried fruits, cream, fertilizers, textiles, confectionery, groceries, automobile accessories, mill supplies, fresh fruits and vegetables, grains, cotton, and so on.

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[1] The fact that legal definitions are not followed in all trades should not cause us to lose sight of distinctions. A man may engage in different types of operations. He may buy and sell for himself; may receive goods on consignment; and may represent some sellers as brokers and others as sales agents. He may be called a "broker" or some other title. Regardless of the name, we should not fail to distinguish his different methods of operation. Confusion also comes from the fact that a man often changes his method of operation. When he changes his method, the old name may stick to him. To illustrate, fruits and vegetables were formerly shipped to a very large extent on consignment to commission merchants. Many of the dealers now do little or no commission business and yet they are still called "commission merchants."

Volume of brokerage business.—The importance of various types of selling agents is shown by the Census figures in Table 2. The average operating expenses of the various agents are also shown.

TABLE 2.—BUSINESS OF SELLING AGENTS IN 1929 AND 1933

	1929			1933		
Type of Agent	*Number*	*Sales (millions)*	*Expenses % of Sales*	*Number*	*Sales (millions)*	*Expenses % of Sales*
Brokers. . . .	3,689	$ 4,038	1.3	3,414	$2,088	1.7
Commission merchants	3,479	4,695	2.3	3,128	2,225	3.2
Sales agents	3,260	2,623	4.8	1,235	988	4.2
Mfrs' agents .	6,987	1,775	6.8	4,972	574	6.8
Export agents	260	399	4.4	240	135	4.2
Import agents	85	57	9.2	179	51	6.4
Other agents	628	670		650	411	2.7
Totals and averages	18,388	$14,257	3.2	13,818	$6,502	3.2

It will be noted that the depression of the early thirties was hard on the business of selling agents, their number declining 25 per cent and their sales 54 per cent. Export agents, manufacturers' agents, and sales agents were especially hard hit. The number of import agents, however, increased during this four-year period. A great part of the decline in sales, was, of course, due to a decline in prices. This was especially true of commission merchants, whose business probably declined very little in actual quantity of goods handled.

The average expenses of the various types of selling agents for the years 1929 and 1933 are shown in Table 2. The expense figure excludes the salaries of proprietors and partners. In the case of small unincorporated concerns, such salaries take a very considerable portion of the agents' commissions and in fact constitute one of their largest expenses.

Paid for their services.—Brokers are ordinarily paid commissions on the goods bought or sold. The commis-

sion may be a percentage of value or a definite amount for each unit of produce. Commissions vary with the size of sales customarily made, with the services rendered, and with the volume of business furnished by individual employers (principals). Higher commissions are charged in trades where sales are commonly made in small quantities than in trades where sales are made in larger lots. Higher rates are often charged when brokers help to finance their principals than when no financial assistance is rendered. A large seller, by giving all of his business in a territory to one broker, may secure a lower rate of commission.

Commissions range from a fraction of 1 per cent up to 5 per cent or more, sales agents often receiving higher rates of commission than brokers. In the sale of canned foods, for example, brokers are frequently paid 2 per cent, while sales agents often receive 5 per cent. The broker may receive so much per car, per bushel, per dozen, or per pound. The rate on potatoes may be $10 a car, while the rate on eggs may be ¼ to ½¢ per dozen. On the sale of grain, rates may be from 15 to 25 cents per 1,000 bushels.

Commission merchants perform more services than brokers and therefore ordinarily receive higher rates of commission. Rates of 5 to 10 per cent are common. On the sale of consigned grain in Chicago, the commission merchants ("brokers") receive 1 per cent with 1½¢ per bushel as a minimum on wheat and 1¢ on corn.

Functions performed by brokers.—The broker performs primarily a selling (or buying) function. He finds buyers, negotiates price, and gives advice. He ordinarily does little to create demand.

In addition to selling, the broker sometimes helps to

finance his employer (principal). He may endorse his employer's notes, may loan him money, may guarantee accounts for goods sold, or may advance money against goods. The sales agent, however, more often finances his employer than does the ordinary broker.

At times the broker handles goods. The seller may have orders for only a part of a car and yet may ship an entire car to secure the lower freight rate. The broker tries to sell the rest of the goods while they are in transit, and, if he cannot do this, he must care for the goods until they are sold. The broker often receives pooled cars, has the cars opened, and has the goods delivered to the buyers.

The broker may collect accounts and represent the seller in disputes with buyers. Most of these are extra services, not included in a regular brokerage business. They are performed in order to secure satisfied principals.

Place of brokers in trade channel.—The broker usually represent manufacturers, mines, mills, importers, or country shippers, such as farmers' coöperative associations. He usually sells to manufacturers, wholesalers, jobbers, chain stores, department stores, large specialty stores, exporters, mine operators, public utilities, contractors, or other large buyers.

Operation of brokers.—The broker is a specialized, independent salesman. He is specialized in that he sells only one product or a few closely allied products. He often operates in highly specialized lines that are little known to the average consumer. The selling broker is a salesman, and his main function is to sell. His chief assets are his sales ability, his relations with buyers and sellers, and his knowledge of market conditions. Brokers

often operate as individuals, maintaining small offices, renting desk space, or handling the necessary correspondence from their homes.

Other brokers are organized as partnerships and corporations. Some of the large brokerage concerns have suites of offices, forces of salesmen, stenographers, and clerks. A broker usually operates in only one city, although he may effect sales in other cities through other brokers. The sales agent, for example, may receive a 5 per cent commission and pay 2 per cent of it to the brokers who make sales in various cities.

The concern doing a strictly brokerage business needs little capital. It has only to pay operating expenses until sales are made and commissions collected. However, if his employers are financed, considerable capital may be needed.

Earnings of brokers.—Since a broker is paid a commission on his sales, if his sales are large, his earnings will be large. If he makes few sales, he will have small earnings. Successful brokers often receive handsome incomes, but unsuccessful brokers may earn so little that they leave the business or devote only a part of their time to it.

Advantages of brokers' selling function.—Brokers are employed to make sales because the seller is too small to maintain a satisfactory sales organization, because the brokers have valuable contacts with buyers, or because it is cheaper to sell through brokers than to maintain a sales organization.

Service to small producers.—Many small manufacturers employ brokers, because they have limited capital, because they have limited sales, or because they know little about selling. Their volume of business is too small to justify a complete sales organization, and very

often the operation of their plants requires all of their capital, time, and energy. Many good production men are poor salesmen. It is logical for concerns in the hands of such men to employ sales agents who may take over the entire marketing of their goods. When such producers become larger, they often employ brokers and exercise a general supervision over selling activities. When they become still larger, they often establish their own sales organizations and do without brokers.

A cannery, for example, is often owned by a man who knows little about marketing. His time is occupied with the operation of the cannery, and the most practicable way for him to sell his canned goods is to employ a sales agent or a broker to dispose of them.

A cotton mill may be started in a small town by local capital. The company hires as manager an experienced mill man whose time is fully occupied in managing the mill. Besides the fact that he is fully occupied, he probably knows little about marketing. The logical way to sell the output of the mill is through sales agents or brokers. They are in the market continually. If the manufacturer depends entirely on traveling salesmen, he is likely to lose some sales because his salesmen are not always on hand when the purchasers are ready to buy.

Advice.—The advice given by brokers is often very valuable to their principals. In fact, some concerns employ brokers primarily for their information and advice. These brokers often study supply and demand factors carefully and are in daily and hourly touch with prices. This enables them to predict future price movements with some assurance—information that is often valuable to business men. They know the actual prices at which goods can be bought or sold, whereas it is

sometimes hard for one not in constant touch with the market to secure this information. Published prices are not always the actual prices at which goods are being sold.

Cost of brokers.—It may be cheaper to sell through brokers than to maintain a sales organization. To illustrate, a manufacturer may sell $10,000 a month in a certain territory. He pays his broker 2 per cent, or $200, a month for securing this business. It would cost the manufacturer $400 or $500 a month to keep a salesman of the necessary ability in this territory. It would cost something like $1,000 a month to open a branch sales office in charge of a competent manager. If the manufacturer places his own salesman in the territory and he does not increase sales, selling expense will be 4 or 5 per cent; while if he maintains a branch sales office, his selling expense will be 10 per cent. If this manufacturer decides to substitute his own salesman for the broker, this salesman will have to more than double the volume of sales to hold his selling expense down to 2 per cent. If he opens a branch office, he will have to secure five times as much business to hold his selling cost down to 2 per cent.

Disadvantages of brokers.—One reason why brokers are not more widely used is that they do not sell enough goods to satisfy their principals. Brokers are accused of loafing on the job. It is said that they go after only the big orders, that they take only the business that comes to them; in short, that they do not work the market thoroughly. The manufacturer referred to above may feel that the territory should yield much more than $10,000 business a month. He may place his own salesmen in the territory to increase sales even if the percentage of selling cost is increased.

On his side, the broker says that he can devote to an account only the amount of time that the sales justify. If the manufacturer wants more effort put behind his goods, he should pay the broker more. The manufacturer replies that if the broker would work harder, he would make larger sales and thus earn larger commissions. The manufacturer cannot, however, expect the broker to do a lot of promotional and missionary work for 2 or 3 per cent.

The brokers are also accused of selling purely on a price basis. It is said that the only sales argument they know is a low price: that they know little about selling on a basis of quality.

Social value of brokers.—The broker is useful in selling for small producers. He operates on a relatively small margin. He has relatively low expenses, owing to the large average size of his sales and the fact that he does not handle the goods. The consumer, therefore, is benefited when the broker displaces middlemen with higher operating expenses.

The brokers may be criticised for encouraging speculation. Some brokers induce people to speculate in order to earn commissions on the transactions. Almost any commodity can be used for speculation—grain, potatoes, onions, eggs, or real estate. Brokers may urge people to purchase such commodities in the belief that prices will advance. Many argue that such speculation is opposed to the public interest. Brokers not only encourage others to speculate but often speculate themselves by buying goods. Those who follow this practice regularly are called *merchandising* brokers.

The broker may divide the goods and pass them on toward the consumer in smaller lots. If he does this, he is performing the functions of a wholesaler. Many

of his merchandising transactions are, however, purely speculative and hence of very doubtful value. Census figures show that about 12 per cent of the sales of brokers consisted of goods handled on a merchandising basis.

We commend the broker for his regular or legitimate selling (or buying) activities, but condemn his speculative activities.

Commission merchants.—Commission merchants are important in the sale of many commodities. Most of the livestock is consigned to commission men located at the stockyards in central markets. Approximately 70 per cent of the grain reaching central markets is sold on a commission basis. Butter, fruits, and vegetables are often sold by commission merchants. Many manufactured products, such, for example, as Mazda light bulbs, are sold on a consignment basis. Some manufacturers sell on a commission basis in order to control resale prices or to induce the merchants to carry adequate stocks of goods.

Commission merchants, however, are said to do less business than formerly. Many wholesale buyers have established buying facilities at country points, so that the farmers or country shipper of farm products do not have to consign their products to a commission merchant in a central market. Many farmers' coöperative organizations have established selling organizations in the central markets.

At times there has been much dissatisfaction with commission merchants, because of the low prices received on sales made by them. Many shippers consign only when local prices are unsatisfactory. If the farmer or country shipper is offered a satisfactory price at the country point, he will be likely to sell there. If, however, the local price is low, he may consign his goods to a

commission merchant, hoping for a better price. The price is probably low because the market is oversupplied. Unless the oversupply disappears while the goods are in transit, the commission merchant is very likely to have to sell at a low price. The shippers are naturally dissatisfied and blame the commission men.

The commission men have also been accused of dishonest and unfair practices. They have been accused of making false returns to shippers; of buying the goods themselves at low prices and then reselling for a profit; and of selling their own goods and allowing consigned goods to spoil. There have undoubtedly been dishonest commission men, but the commission merchants say that the percentage of dishonest men is no higher among commission merchants than among other groups.

The Federal government and some of the states have provided for their regulation. Those handling perishable agricultural products in interstate commerce are licensed by the Federal government, and their operations are subject to inspection by public officials.

Chapter 5

Review Questions

1. Define an agent; a broker. What are the different types?

2. Define a sales agent; a resident buyer.

3. Define a commission merchant.

4. How are brokers paid for their services? Why do the rates of commission vary?

5. What is meant by saying that the broker is a functional middleman? What functions do brokers perform?

6. What place does the broker occupy in the trade channel? How are brokerage concerns organized?

7. How are a broker's earnings determined?

8. Why are brokers used? Are brokers more likely to be employed by small or large manufacturers? Why?

9. Why is it that a manufacturer can at times sell with less expense through a broker than through his own salesmen?

10. What kind of advice does a broker give? Why is this valuable to the principal?

11. Why are buying brokers employed?

12. Why is it that a broker sometimes finances his principals?

13. What are the disadvantages of selling through brokers?

14. What can you say of the value of brokers from a public, or social, viewpoint?

15. In what trades are commission merchants important? Why has the business of commission merchants declined?

16. Why have the shippers at times been dissatisfied with commission merchants?

17. Under what conditions is the sale of goods through commission merchants likely to be satisfactory?

Thought Problems

1. What traits of character or qualities are necessary for success in the brokerage business?

2. How can a young man become a broker?

3. Why is it that manufacturers often employ sales agents when they are small and then discharge these agents and establish their own sales organizations when they become large?

4. It has been said that the brokers cannot create demand —that they are best suited for selling staple products to large buyers on a price basis. On their side, the brokers say that they can create a demand if they are paid for doing it. They point out that little promotion work can be done for 1, 2, or even 5 per cent. If the manufacturer advertises his product

and employs missionary men, his expenses will be much above 5 per cent.

The broker also says that if he expends a lot of energy on a brand and builds up a big demand for it, the manufacturer may take its sale away from him and not allow him to profit from his efforts.

Comment on these statements. Under what conditions would you employ a broker to create demand for goods sold under your brand?

5. Can a manufacturer sell more cheaply through his own salesmen or through a broker? Discuss.

6. If brokers sell at less expense than manufacturers' salesmen, should their operations be encouraged?

Chapter 6

Auctions, Exchanges, and Speculation

Auctions

Two kinds of sales.—Sales may be made in two ways: privately between buyer and seller; and publicly, the goods being sold to the highest bidder. Public sale involves more formality than private sale. The seller is supposed to announce the rules of the sale in advance and then to sell to the highest bidder who conforms to the rules, unless the rules allow the goods to be withdrawn or bids to be refused.

Most of us are familiar with some type of auction sale. In the rural districts there are frequent auctions of livestock, household goods, and farm equipment. In the cities there are auctions of real estate, used furniture, art goods, and antiques.

Characteristics of public sales.—Public sales are open to the public. Anyone is free to come and bid. The goods must be sold to the highest bidder, unless the seller reserves the right to reject bids. A common rule is that a sale must be made if two bids are received. Goods sold at auction are usually sold "as is"—that is, the buyer takes the goods just as they are and the seller does not guarantee them in any way. Goods that are not standardized, and goods without known values, such as rare books and paintings, may be sold at auction. On the other hand, some argue that since goods are not

guaranteed, more buyers will be attracted and higher prices will be received when standardized goods are sold. As the goods are not guaranteed, the buyer should be given a full opportunity to examine them. If this opportunity is denied, the buyer may well be suspicious of the sale.

The auction sale brings into play an element of crowd psychology that is lacking in private sales. People in a crowd do not always think clearly, nor do they like to be outdone in public. Thus if two or more bidders start bidding for an article, they may bid more than it is worth. On another article the bidding may be listless, and the article may be sold for less than its value. Prices received at auction may vary widely. The hope of getting bargains is one of the main factors attracting people to auctions.

The law of supply and demand is said to work more freely in public than in private sales. The supply is known and the price realized depends upon the bidding of the buyers. The auction seller says something like this: "Here are the goods. Take them for what you think they are worth."

To be successful, auctions must be well attended by buyers and must have their confidence.

Functions of public sales.—The auction performs primarily a selling function. It finds buyers, negotiates price, and transfers title. Other functions that may be involved are dividing, storing, financing, assembling, and transporting. Auction sales at times establish market prices which are followed at private sales.

Importance of auctions.—The auction is an old method of selling. It has apparently declined somewhat in relative importance, but is still of much greater importance than is realized by some people. Real estate;

livestock; antiques, rare manuscripts, pictures, and books; furs; used furniture and rugs; salvaged stocks; used farm machinery; tobacco; eggs; and fresh fruits and vegetables are often sold at auction. The Census reported 404 wholesale auction companies in the United States in 1929, with sales of $352,324,000, which was an average of $872,000 per auction. Fruits, vegetables, and tobacco make up a large part of the goods sold at auction. Furs are another important product sold at auction. The world's wool market centers in the wool auctions held in London and other cities.

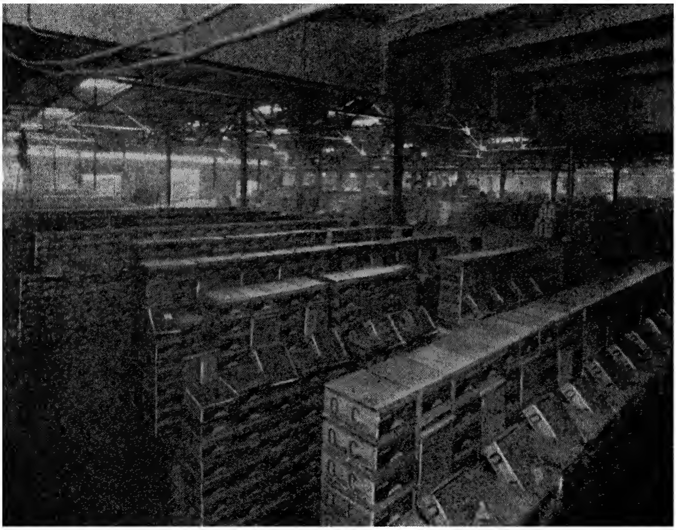
Types of auctions.—Since auctions are open to the public, they cannot technically be divided into wholesale and retail sales. Practically, however, wholesale auctions are established by fixing the minimum amounts of goods that can be bought so large that only dealers can buy. Auctions may be classified into those held regularly, as every day, every week, every month, or at definite times during the year; and those held irregularly. Irregular sales may be announced to sell bankrupt stocks, livestock, salvaged goods, real estate, or used goods.

We are particularly interested in wholesale auctions, which are held regularly and so become an established part of our marketing system. The fruit auctions are perhaps the largest and best known of the regularly established wholesale auctions.

The fruit auctions.—These auctions sell both fruits and vegetables but are especially important in the sale of oranges, grapes, lemons, boxed apples, grapefruit, and bananas. Approximately one-third of all the fruit shipped by rail is sold at auction.

Fruit is auctioned off in carlots and in less-than-carlots. With the exception of California grapes, most of it is sold in less-than-carlots at auctions located in

12 or 15 of our large cities. In these less-than-carlot auctions, the fruit is unloaded from the cars and stacked in rows in warehouses. The lids are removed from top boxes for inspection. After inspecting the fruit, the buyers go to the auction rooms where the sales are held.



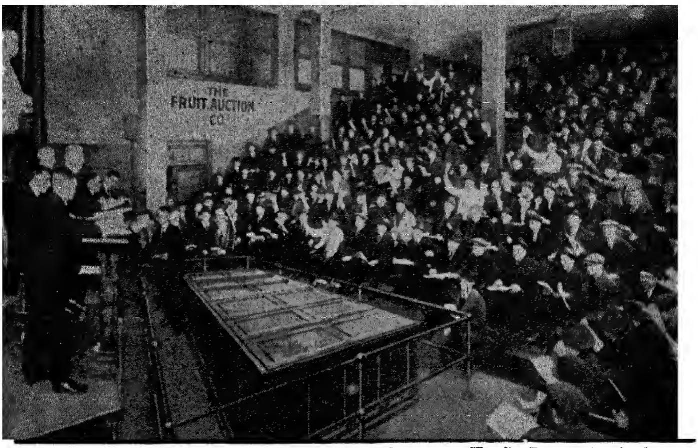
Courtesy Pennsylvania Railroad.

Fig. 4.—Fruit unloaded from the cars and awaiting inspection of the buyers prior to its sale at auction. Note that the lids are removed from one-half of the lugs (boxes) of grapes in the top rows to allow inspection.

Catalogs are printed, arranged by carlots. Each carlot is divided into lots, or *lines,* and the fruit is sold by *lines.* All the fruit in one car is sold before a second car is offered. Sales are made with such rapidity that a score or so of cars may be sold in an auction lasting for perhaps a couple of hours.

Position in trade channel.—The fruit auction sells fruit for coöperative associations, auction receivers who rep-

resent country shippers, wholesalers, and commission merchants. Sales are made to jobbers; chain stores; brokers representing retailers, institutions, and others; wholesale grocers; hucksters; and others who buy in large enough quantities to justify spending the time necessary to attend the auction.



Courtesy U. S. Dept. Agriculture.

Fig. 5.—Interior of a fruit auction. Note the clerks on both sides of the auctioneer to record the sales, and note the platform in front of the auctioneer on which goods may be displayed when necessary.

Charges.—These auctions are privately owned and operated for profit. The seller pays the auction company on a commission basis, usually from 1½ to 2½ per cent.

Value of auction company's services.—There has been a considerable discussion of the value of the auction's services and of the efficiency of the auction as a piece of marketing machinery. Many have been impressed with the economy in its operation. An organization selling for 1½ to 2½ per cent appears to furnish an economical

marketing method. One auctioneer sells as many goods as several salesmen selling privately, which means low selling expenses. Other expenses, however, are involved. Out-of-town sellers must ordinarily employ representatives to look after their interests at the auction, and the buyers must spend much time attending the auctions or must employ brokers to buy for them.

Complaints of abuses in the conduct of the auctions have been heard. The goods of certain sellers may be favored in the sale, the sellers may bid in their own goods, the auctioneer may favor certain buyers, or goods may be withdrawn from sale to raise prices.[1] These complaints apply to auctions in general and not particularly to fruit auctions.

Some of the advocates of the auction system have been so impressed with its efficiency that they have advocated its extension to all large markets and to other commodities. To secure fair operation and greater confidence from the buyers, some have proposed that the auctions be regulated by the government. One proposal is that any farmer or country shipper be allowed to ship goods to the auction company for sale, or to a public official who would have them sold at auction. This would assure the owner of an outlet for his goods, but there would, of course, be no assurance that he would be satisfied with the price received.

The auctions are very interesting parts of our market structure. When fairly conducted, they seem to market goods economically. The subject of extending their operations should be carefully studied.

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[1] Other abuses reported at times are selling some goods privately before the auction starts, and the announcement of fictitious bids by the auctioneer.

Commodity Exchanges

A commodity exchange is an organization which provides facilities for trading in certain staple kinds of produce by its members. The facilities consist of a meeting place, a force of employees to keep records and handle the details of operation, rules regulating the conduct of business by members, and information concerning supplies and prices. The exchange itself does not buy or sell, nor does it handle the goods physically. It merely provides facilities for trading by members.

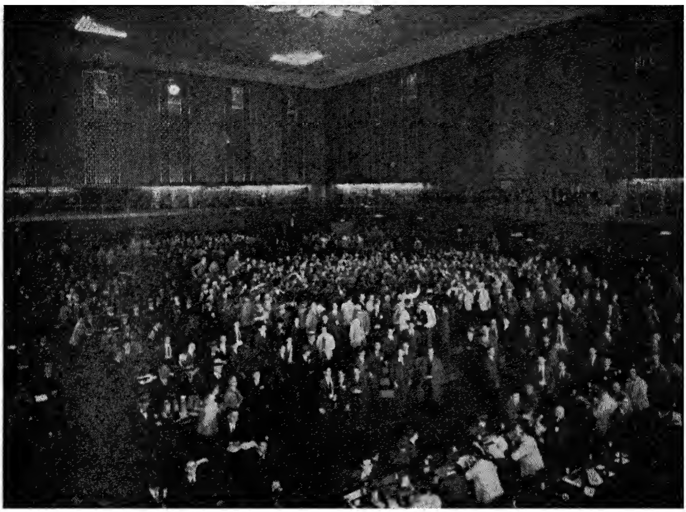
In the public mind the exchange is associated with the activities of people who buy and sell on its floor.[2] In judging the value of exchanges, we must consider both the operation of the exchanges and the trading that centers around them, which is often speculative. A consideration of the exchanges therefore leads to a discussion of speculation.

Exchanges distinguished from auctions.—In some respects the exchanges resemble auctions. There are, however, several differences. An auction is open to the public; an exchange is open only to its members. The auction is conducted under very loose rules; the exchange has very strict rules. In an auction, the auctioneer does all the selling. In an exchange any member is free to sell. In an auction, goods offered for sale go to the highest bidder (unless a right to reject bids is retained by the seller), while on an exchange, the seller names the price which he is willing to accept.

Products handled.—Some of the commodities bought and sold on exchange floors are grains (wheat, corn, oats,

[2] A commodity, or produce, exchange must not be confused with farmers' coöperative associations, which are frequently called exchanges. In order to avoid confusion in this volume, the word "exchange" is not used to refer to farmers' organizations.

rye, barley, and flaxseed), cotton, butter, eggs, pork products, cottonseed oil, rubber, raw silk, sugar, cheese, coffee, cocoa, tin, hides, copper, lead, and zinc. Exchanges are located in nearly all large cities. Some of the more important ones are: the Chicago Board of



Courtesy Chicago Board of Trade.

Fig. 6.—Trading floor of a large commodity exchange—the Chicago Board of Trade.

Trade; the Minneapolis Chamber of Commerce; the New York Cotton Exchange; the New Orleans Cotton Exchange; the New York Mercantile Exchange; the Chicago Mercantile Exchange; the Commodity Exchange, Inc.; the Coffee, Sugar, and Cocoa Exchanges; and the Kansas City Board of Trade.

Call and continuous markets.—Exchanges operate in two ways. Some hold meetings at a definite hour each day or each week, and some are open continuously several hours daily.

The former is known as the call method. Under this method business is conducted with the help of a blackboard (hence the name "board" which is often used as a name for commodity exchanges). Members who have goods to sell offer them at certain prices. These prices are written on the board. Other members who want these goods bid for them. The bids are also written on the board. If the bids are as high as the prices offered, sales are made. When all offers and bids are made, the meeting is adjourned until the next meeting time. The call method is used principally by the smaller exchanges.

Spots and futures.—The business transacted on the floors of the exchanges is of two kinds. First, there is the spot, or cash, business, when sales are made for immediate delivery. Second, there are contracts made for the sale of products during some future month; these contracts are known as *futures*.

In regard to spot sales, the exchange is really a meeting place where dealers gather at specified times and buy and sell from each other, sometimes using the call method. The actual goods are not at the exchange. Sales are made from samples, by grades, or by both sample and grade. In the latter case, the seller displays samples of his goods (oats, for example) which have been graded by the licensed inspector and assigned a definite grade, such as No. 4. It is apparently economical for the buyers and sellers to have a definite meeting place. It saves time in getting together. Sales by grade and sample save time in inspecting and handling the goods. Business conducted on the exchange is conducted under strict rules. The dealers were formerly accused of meeting on exchanges and arbitrarily fixing prices. This prac-

tice, however, has been stopped, and relatively little complaint is now heard against the spot markets conducted by the exchanges. They are generally endorsed as an efficient marketing method.

In regard to future sales, the exchange provides a meeting place where its members make future contracts, and it provides rules that make reasonably sure of the fulfillment of the contracts.[3] The future markets established by the exchanges are used for two purposes: speculation and hedging. These are discussed below.

Future trading.—The controversy over the value of the exchanges centers in future trading. Most of the speculation and most of the alleged manipulation of prices occur in the future markets.

Speculation on future markets is alleged to be one of the worst forms of gambling. It is alleged that the speculators arbitrarily manipulate prices to their own advantage and against the interest of the farmers. The speculators are supposed to depress prices when the farmers are selling their crops and then later on boost them. On this point, Senator Capper has said: "In three short months last summer (1928), the grain gamblers on the Chicago Board of Trade mulcted the grain farmers of Kansas out of $75,000,000 through a legalized gambling device in which the wheat grower neither draws cards nor is allowed to shoot dice. He only furnishes stakes in the game and, no matter who among the gamblers win, the grower loses. It is an economic crime, a business blunder, and legislative insanity to allow this condition to continue."

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[3] Insolvency of a brokerage house may mean that a contract is not fully satisfied.

In favor of future trading, it is pointed out that it makes hedging possible. Further, it is said to stabilize prices and to give an indication of the level of future prices.

Speculation

Speculation is an attempt to make a profit from a change in price and not by performing a service. Speculative contracts to buy or sell goods can be easily made at all times upon the floors of the larger exchanges. It is not necessary for the speculator to put up enough money to cover the entire price of his purchase or his sale. He simply puts up enough money with his broker to cover probable fluctuations in price. This amount is called a margin.

Marginal dealing.—Marginal dealing enables one to increase the amount of his trading. Suppose that a man has $1,000 and wishes to speculate in wheat, which is $1 a bushel. If he had to pay the entire purchase price, he could buy only 1,000 bushels. Suppose he buys 1,000 bushels and the price advances to $1.05. He has made a profit of 5¢ a bushel, or $50. But suppose he can buy this wheat on a margin of 10 per cent of the price. His $1,000 will serve as a margin for 10,000 bushels. If the price rises 5¢, his gain is increased tenfold to $500. Similarly, his loss will be ten times greater if the price declines.

Short selling.—When one speculates in actual goods, he must ordinarily buy the actual commodity and hold it for an advance in price. Future trading involves dealing in contracts for future execution. This makes it possible to contract to sell a product which at the time one does not own. One does this when he believes the price is going down. If wheat is $1 a bushel and

he believes that the price will drop to 95¢, he orders his broker to sell wheat. He hopes that the price will drop and that he can repurchase the wheat at a price of less than $1 to deliver on his contract at $1.

Marginal dealing and short selling are made possible by future trading on organized exchanges. They are seldom found in ordinary private sales.

Evils of speculation.—Speculation is not without attendant evils. People lose money that is needed for living expenses, better homes, and education. Embezzlement, broken health, and suicide are often caused by speculative losses, and much harm is likewise done by speculative profits. Stories of large gains are widely circulated—much more widely circulated than the stories of losses. These stories excite others to try to make money without working, thus limiting industry and discouraging thrift. No real advancement can be made without work, and the attempt to live without it is bad both for the individual and for society. Very few succeed. Those who do usually spend the money unwisely and set a bad example for others. Those who fail at best lose money which they could have put to better purpose; at worst they are led to crime or premature graves.

Speculation takes time and mental energy that could be spent to much better advantage. Just think what could be accomplished if all the time and attention spent in speculation, in following prices, and in listening to gossip and tips were devoted to a useful purpose! Speculation is a kind of contagious disease. It affects many who only pretend to speculate—who speculate only in their minds for imaginary profits.

The machinery necessary to carry on speculation is expensive. It has been estimated that the direct cost

of conducting one speculative market—the Chicago Board of Trade—is over $20,000,000 a year.

If speculation has so many evils, why is it not abolished? Congress would probably have abolished it long ago except for one fact—it permits hedging.[4]

Hedging.—Hedging supplies a kind of insurance against price changes. The insurance companies issue policies against many hazards, such as fire, rain, hail, tornado, and theft, but they do not write policies against changes in prices. Hedging is possible only when future trading exists.

Hedging is the future sale or purchase of goods to offset or balance dealings in the actual product. It ordinarily involves a purchase and a sale of the same amount of the same commodity in two markets—the spot market and the future market. A simple example of hedging is furnished by a grain elevator that purchases wheat. If the price of this wheat drops while it is owned, the elevator will lose money. To avoid this danger, the elevator may sell an equal amount of wheat for future delivery. Now if the price of wheat drops, it will lose money on the wheat in storage, but it can buy wheat for delivery on its future contract at a lower price and so make a profit on the future sale equal to the loss on the actual wheat on hand.

Hedging illustrated.—Let us assume that in a central market on July 1 the price of September wheat is $1 a bushel, that the freight rate to this market from a country point is 10¢ a bushel, and that the elevator located at the country point needs 5¢ a bushel to cover its operating expenses and its profit. The elevator offers

[4] Speculation is usually legal because the contracts call for actual delivery of goods. As a matter of fact, however, few goods are delivered on future contracts.

the farmer 85¢ a bushel. On July 1, it buys 1,000 bushels of wheat at 85¢. Now if the price goes down, it will lose money. To prevent this, it sells 1,000 bushels of wheat for delivery in September at the future price of $1.

On August 1, the wheat reaches the central market and is sold. The spot (cash) price is 90¢. The elevator loses 10¢ a bushel on the spot wheat. If it had not hedged, therefore, its loss would be $100.

The price of September wheat has also probably declined, perhaps to 90¢. The elevator buys in its hedge at 90¢ and makes a profit of 10¢ a bushel, or $100, on its future contract. The profit on the future offsets the loss on the spot transaction, and the elevator has its 5¢ margin to cover operating expenses and profit.[5]

The account stands thus:

Purchases		
July 1—1,000 bu. spot wheat @ 85¢....	$850	
Aug. 1—1,000 bu. Sept. wheat @ 90¢....	900	
Total purchases		$1,750
Sales		
July 1—1,000 bu. Sept. wheat @ $1....	$1,000	
Aug. 1—1,000 bu. spot wheat @ 90¢....	900	
Total sales..................................		1,900
Difference between sales and purchases.............		$150
Freight to get wheat to central market.............		100
Elevator's margin..............................		$50

[5] Hedging does not always work out in this way. The future price may be above the spot price or below the spot price at the time goods are purchased. As the future month approaches, the prices tend to come together. It is much more satisfactory for the owner of goods to hedge when future prices are above spot prices than when the opposite is true. All grades of goods are handled, but hedges can be made only in the future (contract) grade. The prices of the various grades of a product do not always move together.

Hedging can similarly be used to protect margins on future sales. Suppose a cotton mill sells cloth in March for August delivery, based on the price of cotton for August delivery which is 15¢ a pound. It can buy cotton for future delivery in August for manufacture into cloth at 15¢ and so protect itself against an advance in the price of cotton.

Advantages of hedging.—The advantage of hedging to the one doing the hedging is that it enables him to shift a part of the risk of price changes to others. This enables him to conduct his business on narrower margins, which, in turn, enables him to pay more for the goods handled or to sell them at lower prices. Many of the products dealt in on exchanges are farm products. Hedging thus enables the buyers of these products to pay the farmers higher prices than they could if they had to assume the risks of price changes.

Chapter 6

Review Questions

1. In what two ways may goods be sold?

2. What are the characteristics of auction sales?

3. What factors determine prices at an auction?

4. What is meant by "as is"?

5. What marketing functions are performed by auctions?

6. What can you say of the importance of auctions in the United States?

7. What are the different types of auctions?

8. How do the fruit auctions operate?

9. What position does the fruit auction occupy in the trade channel?

10. What charges does the fruit auction make for its services?

11. Is the auction an economical method of marketing? Does it help the sellers? Does it help the buyers?

12. What is a commodity exchange? How does it differ from an auction?

13. Distinguish between call and continuous markets. How does a call market operate?

14. Distinguish between spot and future sales.

15. Is the spot business desirable? Have any objections been made to it?

16. What is future trading?

17. Name the arguments for and against future trading.

18. What is speculation?

19. What is meant by dealing on a margin?

20. What is meant by short selling?

21. What are the evils of speculation?

22. Why is speculation on organized exchanges allowed to persist?

23. What is hedging? Illustrate.

24. What are the advantages of hedging?

25. What are the limitations on hedging?

Thought Problems

1. What types of auctions are held in your community? Are any of these held regularly?

2. Sellers naturally have their goods sold in the way that they think will bring them the highest prices. Those who use the auction believe that they receive higher prices at auction than they would at private sale. Do you agree? Why or why not?

3. It was stated in this chapter that out-of-town fruit shippers have to have local representatives when they sell

at auction. The auction companies do not like to act as consignees. It has been suggested that the auction companies act as consignees, receive goods direct from growers, and relieve out-of-town shippers of the expense of hiring representatives to protect their interests. Comment.

4. It has been argued that speculation is justified because it gives pleasure to the speculators—in other words, that the speculators use it for a game and not for a source of profit. Do you believe that speculation is justified by the pleasure that it gives to the speculators?

5. Speculators have been called gamblers, and it is said that most of the speculation on the exchanges is gambling. On the other hand, some persons make a distinction between speculation and gambling. Can you draw a logical distinction?

6. Using figures, illustrate hedging transactions for the following types of concerns: a country elevator; a flour mill; a cotton mill that buys cotton to cover its future needs.

Chapter 7

Wholesalers

Wholesaler defined.—A wholesaler is a merchant who sells to other merchants and to manufacturers, contractors, hotels, institutions, and others who buy in large quantities. The wholesaler is a merchant; that is, he buys goods and has title to them and sells them in an attempt to make a profit.

Place in trade channel.—The wholesaler is ordinarily thought of as occupying a position in the trade channel between the manufacturer or the country shipper, and the retailer. Many wholesalers buy from manufacturers, brokers, country shippers, and farmers' coöperative associations and sell to retail dealers. These wholesalers are often called jobbers.

Other wholesalers handle industrial goods—raw materials, machinery, and equipment—and sell to manufacturers, contractors, mine operators, railroads, and public utilities. Some of these wholesalers are called "mill supply houses." Many small manufacturers depend upon them for raw materials and equipment, while large manufacturers patronize them for fill-in lots which they need quickly. Industrial wholesalers handle such products as machinery, cotton, wool, cloth, grain, flour, lumber, metals, leather, electrical equipment, and office and mine supplies. Many wholesalers, such as hardware and electrical jobbers, sell to both retailers and industrial

buyers. The operations of wholesalers handling industrial goods are discussed in Chapter 13.

Usefulness of wholesalers.—The wholesaler is a very useful merchant and is, in fact, almost indispensable to the smaller retailers. Most retailers handle goods made by hundreds of manufacturers, and many of them must buy in small quantities. The manufacturer cannot sell them such small quantities economically; nor can he, as a rule, supply them goods as quickly as the wholesaler. They must often buy on credit, and yet many have such poor credit ratings that many manufacturers are unwilling to take the risk of selling to them on credit.

Wholesalers are also useful to the manufacturers, serving as the manufacturers' sales organizations and regional warehouses. Many specialty manufacturers are not in a position to solicit business from the retailers, as the selling expense would be too high. To illustrate, take the case of a manufacturer who has only one product which he sells to the retailers at 84¢ a dozen. The retailers ordinarily buy this product in quantities of one and two dozen. Let us suppose that this manufacturer employs salesmen to sell the retailers. They can visit only a few retailers each day, and they cannot sell all the retailers visited. They probably will not average more than 8 sales per day. If the sales average a dozen and a half each, the daily sales of each salesman will amount to only $10.08. His salary and expenses will be likely to average at least $7.50 a day. This would give the manufacturer a selling expense of 75 per cent. It is evident, therefore, that this manufacturer cannot profitably sell direct to the small retailers. The wholesaler, however, has many products to sell. The expenses of his salesmen are divided between hundreds of products

so that each has to pay for only a small part of the salesman's time.

Volume of wholesale trade.—The Census has compiled data for wholesale and retail trade for the years 1929 and 1933. All non-retail middlemen are included in the wholesale census, which therefore includes not only wholesalers as defined above but also manufacturers' branch houses, brokers, chain store warehouses, and assemblers of farm products. Nineteen twenty-nine was a year of business prosperity, whereas 1933 was a year of severe business depression.

TABLE 3.—SALES AND EXPENSES OF VARIOUS TYPES OF NON-RETAIL MIDDLEMEN

Type	*Number of Middlemen**		*Sales (in millions)*		*Per Cent Expense*	
	1929	*1933*	*1929*	*1933*	*1929*	*1933*
Wholesale merchants	79,784	82,865	$29,288	$12,997	11.7	15.0
Service wholesalers	74,476	76,856	25,371	11,303	12.4	15.8
Exporters	754	453	1,508	558	3.8	6.1
Importers	2,262	2,176	1,808	776	7.0	10.5
Limited functional wholesalers	2,292	3,380	601	360	9.6	11.5
Manufacturers' sales branches	17,086	16,873	16,336	7,557	9.8	12.5
With stocks	†	12,444	†	5,144	†	14.9
Without stocks	†	4,429	†	2,413	†	7.4
Bulk tank stations	19,611	26,190	2,390	1,889	11.3	19.7
Chain store warehouses	559	462	1,930	1,432	4.3	4.5
Agents and brokers	18,388	13,818	14,257	6,502	3.2	3.2
Assemblers and country buyers	34,226	23,962	4,749	1,774	4.5	9.8
Assemblers of farm products	21,884	11,283	2,304	719	†	10.8
Coöperative assns.	4,208	2,732	1,458	686	4.8	9.6
Cream stations	†	2,860	†	31	†	15.6
Grain elevators	8,134	7,087	987	338	†	7.5
Total	169,654	164,170	$68,950	$32,151	8.9	11.5

*Establishments, not companies. One company may operate several establishments.
†Figures not available, usually owing to a change in classification.

It will be seen by the figures in Table 3 that the total number of establishments in the wholesale trade was

169,654 in 1929 and 164,170 in 1933. Total sales were almost 69 billions of dollars in 1929 and over 32 billions in 1933. The percentage of expenses increased from 8.9 to 11.5. This increase in percentage resulted from the fact that expenses are made up largely of wages, rents, taxes, advertising, interest on borrowed money, and public utility charges. The expenses for these do not vary with changes in the prices of goods. When the prices of goods increase or decrease, there is a lag in wages, rents, and taxes, in advertising, and in public utility rates. During this four-year period the actual expenses of the various types of wholesale middlemen decreased nearly 40 per cent. However, volume of sales decreased 56 per cent, so that the expense percentage increased. Of the decrease in the volume of sales, 31 per cent was due to a decline in the prices of the goods handled and 25 per cent was due to a decline in the quantity of goods handled. As the volume of sales increases, from the low of 1933, we find the percentage of expense declining.

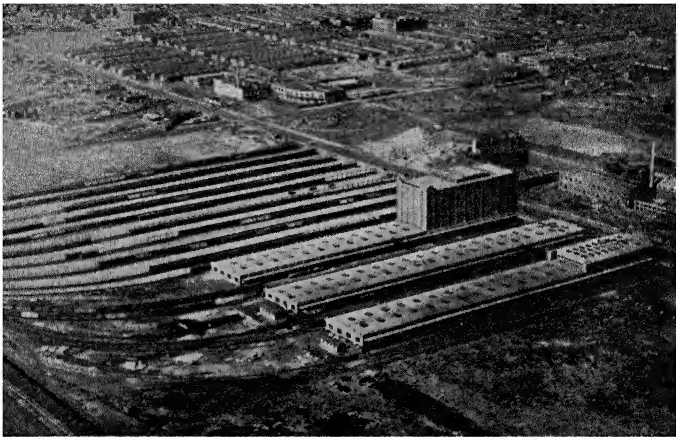
Types of wholesale middlemen listed by Census.—The principal types of middlemen listed in Table 3 are wholesale merchants, manufacturers' sales branches, bulk tank stations, chain store warehouses, agents and brokers, and assemblers of farm products. This chapter deals especially with the operations of wholesale merchants. Manufacturers' sales branches that carry stock are commonly known as "manufacturers' branch houses," and perform about the same functions as wholesale merchants and will not be discussed separately. Manufacturers' sales offices that do not carry stocks more nearly resemble selling agents in the functions performed and methods of operation. Bulk tank stations are wholesale middlemen engaged in the distribution of gasoline

and oil. They operate tank trucks and deliver to filling stations—some are independent, but the great majority are operated by the oil refiners. Chain store warehouses are wholesale houses operated by chain stores, particularly grocery chains, to supply their retail stores. They operate in many respects like wholesale merchants, and will be discussed in Chapter 11. The operations of agents and brokers were discussed in Chapter 5. Assemblers of farm products differ in many respects from other types of wholesalers and will be discussed in Chapters 15–18, which deal with the marketing of farm products.

Wholesale merchants.—The Census divides wholesale merchants into four main groups: service wholesalers (called by the Census "wholesale merchants"), exporters, importers, and limited function wholesalers. The latter group includes cash-carry wholesalers, mail-order wholesalers, truck wholesalers ("wagon jobbers"), and drop shippers. It will be noted from the figures in Table 3 that the number of both service and limited function wholesalers increased between 1929 and 1933. This is interesting in view of the fact that the sales of the service wholesalers declined 55 per cent and those of the limited function wholesalers 40 per cent. There was, in 1933, one wholesale merchant to every 18 retailers and to every 1,500 people. Many of these wholesalers, however, sell to industrial buyers, so that the wholesalers selling to retailers supply, on the average, more than 18 stores.

Goods handled.—Wholesale merchants may be classified according to the types of goods handled. Wholesalers are found handling almost every conceivable product from advertising goods to yarn. Some of the more important types of goods handled are: automobiles and

accessories, coal, drugs, dry goods, clothing, electrical goods, chemicals, grain, cotton, livestock, fruits and vegetables, wool, eggs, poultry, groceries, meats, furniture, house furnishings, jewelry, shoes, leather goods, lumber and building material, machinery, paper, hardware,



Courtesy Pennsylvania Railroad.

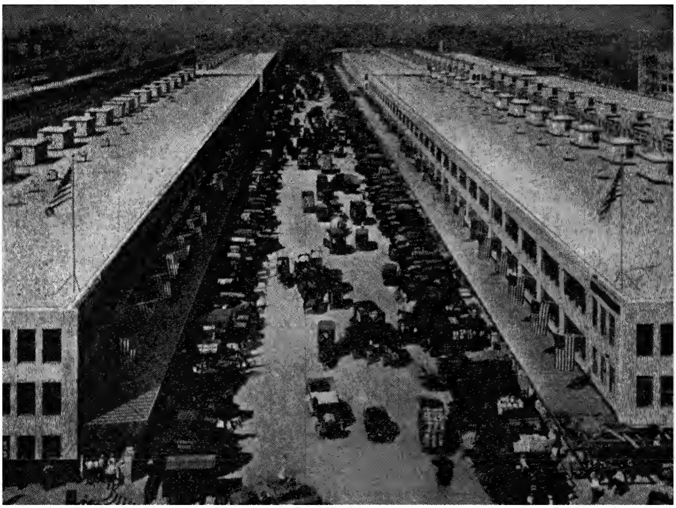
Fig. 7.—A wholesale fruit and vegetable market which helps to supply the needs of a large city. Note that some of the cars are unloaded directly into the space where goods are sold by the wholesalers, and that other cars are on team tracks where the goods can be unloaded into trucks and hauled directly to the stores of the dealers, or from which the cars can be reconsigned to other markets.

plumbing and heating supplies, tobacco, confectionery, dairy products, textiles, and metals.

Some wholesalers handle full lines of goods. The hardware wholesaler, for example, may handle from 20,000 to 80,000 items if sizes are counted. Wholesalers handling dry goods, electrical merchandise, groceries, drugs, stationery, and some other products carry thousands of items in stock. These are known as full-line wholesalers. There are, on the other hand, wholesalers who specialize

in certain products such as potatoes, butter, poultry, knit goods, and hats. These are known as specialty wholesalers.

Ownership.—With respect to ownership, wholesalers may be classified as independent or privately owned; manufacturers' branch houses; chain store warehouses;



Courtesy U. S. Dept. Agriculture.

Fig. 8.—A jobbing and wholesale market from which a large city obtains a great part of its fruits and vegetables.

and wholesale warehouses owned by independent retailers. Wholesale warehouses operated by manufacturers and chain stores are parts of integrated organizations and are not independent merchants. They, however, perform most of the wholesale functions.

Territory.—Some wholesalers cover large territories, occasionally the entire country. These are called sectional or national wholesalers. They often operate a number of warehouses. On the other hand, there are

wholesalers who cover only a small territory, one city, one county, or a part of a large city. These are called local wholesalers. They often have lower expenses than the national wholesalers as a result of more limited stocks, faster rates of stock turnover, less delivery expense, less expense for salesmen, or less service furnished to customers.

Method of operation.—Wholesalers may be classified according to the method of operation or the services performed. Some of the types operating in different ways are the service wholesaler, cash-carry wholesaler; truck-wholesaler or wagon jobber; and the mail-order wholesaler.

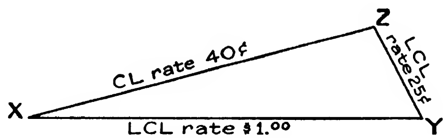
Functions performed.—The functions performed by different types of wholesalers vary considerably. The service wholesaler usually performs 9 or 10 of the 12 marketing functions and may perform all 12. The carlot wholesaler who handles goods in railroad cars, on the other hand, performs primarily the buying and selling functions and the general business functions of risking, financing, and recording.

The service wholesaler.—The service wholesaler is one who carries goods in stock, who has a force of salesmen to solicit orders, and who extends credit to his customers. Perhaps his most important functions are: storing, buying, dividing, selling, extending credit to the retailers (financing), packing, and delivering goods to the buyers (transporting). Risking and recording are, of course, involved. This type of wholesaler does not ordinarily standardize or grade goods.

Storing.—The retailer expects the wholesaler to carry fully assorted stocks of goods so that he can obtain any desired goods on short notice. Promptness in making

deliveries is one of the main requisites for success in wholesaling.

The wholesaler often reduces transportation costs by carrying stocks in strategic points. To illustrate, a manufacturer is located at X and a retailer at Y. The retailer's sales are too small to allow him to buy in carloads. The less-than-carload rate from X to Y may be $1 per 100 pounds. A wholesaler is located at Z.



He buys in carloads and receives a carload rate of 40¢ from X to Z. He sells to the retailer at Y. To get the goods from Z to Y involves a less-than-carload rate of 25¢. The total freight from factory to retailer when the goods are handled by the wholesaler is 65¢, whereas if they were shipped direct to the retailer by the manufacturer, the freight would be $1.

Buying.—It is the wholesaler's job to know what his customers need, to find where the goods can be obtained, and to buy them at prices that will enable his retail customers to meet the prices of their competitors.

Dividing.—The retailers often want to buy goods in very small lots. The retailer often purchases slow selling goods by the case, half-case, dozen, half-dozen, quarter-dozen, or even in single units. The wholesaler is likely to receive orders for less than $5.00 that call for several different articles. The dividing and packing necessary to fill such small orders increase the wholesaler's expense.

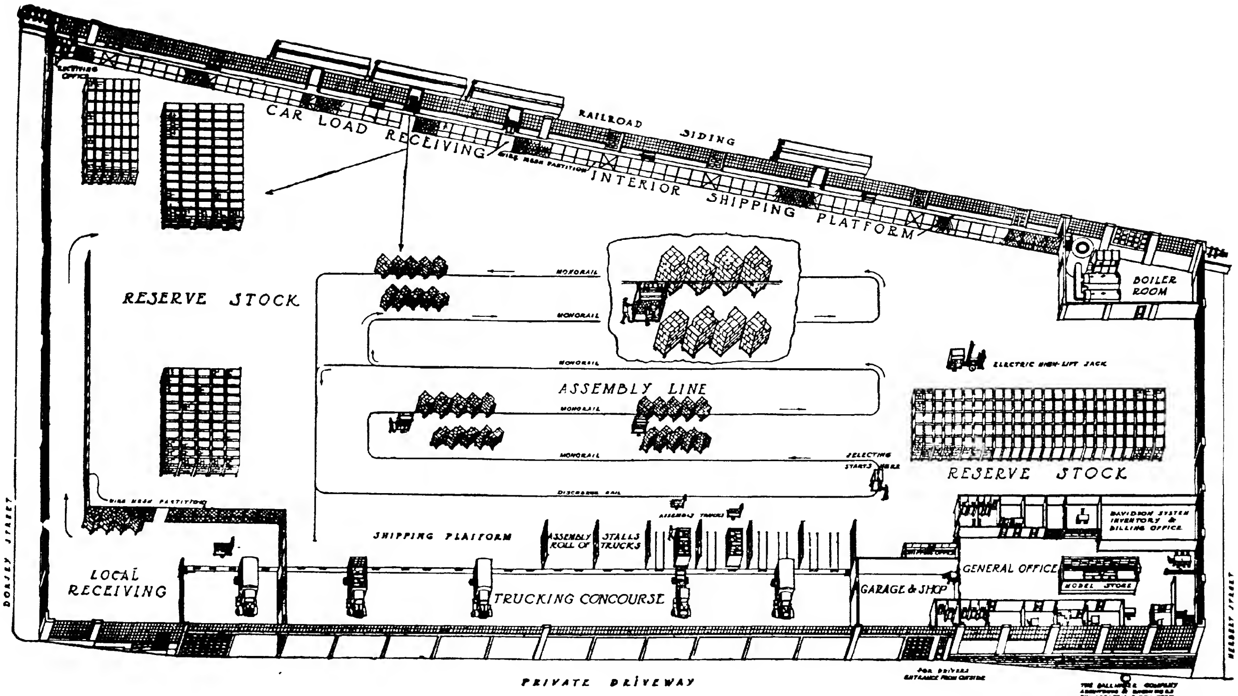
The retailer is often criticised for buying in such

small amounts. Many of his orders are unnecessarily small. The retailer often divides his business among too many wholesalers. He is often a poor stockkeeper, and orders so often that he increases his own expenses for buying and transportation. Some wholesalers refuse orders from retailers who continually order in small lots. It is one thing to ask for a small "fill-in" item occasionally, but it is an entirely different matter when the retailer regularly orders in very small lots.

Selling.—The service wholesaler has a force of traveling salesmen who call upon the retailers and ask for business. The wholesaler's salesmen came into existence with the building of the railroads and for several decades traveled largely by train; today most of them travel in automobiles. Often these salesmen have been mere order takers. "What's on your want list today?" is too often the main part of their sales talk. The retailer could just as well order most of his staple merchandise by mail or telephone, for he knows his own needs. Why does the seller have to pay a man to come around and ask him for the order? Competition is the answer. The retailer will generally give his orders to the salesman who comes and asks for them. The chain store has no salesmen to sell to its retail stores and thus saves this selling expense. In spite of the criticism of the wholesaler's salesmen, however, they build goodwill for their employer and give the retailers valuable advice.

The manufacturer expects the wholesalers to *sell* his goods and has often been disappointed because they do not actively push his wares. He overlooks the fact that the wholesaler is in business primarily to supply the needs of the retailers and not to sell the product of any particular manufacturer.

Specialty salesmen.—Manufacturers are often dissat-



Courtesy the Davidson System.

Fig. 9.—Layout for newer type of wholesale warehouse. Goods are received on one side by railroad, handled

isfied with the volume of sales made by the wholesalers. Many employ their own salesmen to call upon the retailers from time to time and solicit business. These men are called *specialty* salesmen. The manufacturer thus assists the wholesaler in performing the selling function.[1]

Credit.—The service wholesaler extends credit to the retailers. Many retailers have such limited capital that they could not stay in business without the credit extended by the wholesalers. In fact, the wholesaler is often criticised for being too liberal with credit and inducing people to enter the retail business who have insufficient capital.

Delivery.—Many service wholesalers operate their own delivery trucks and deliver goods to the retailers within certain areas, often without extra charge.

Cash-carry wholesalers.—The cash-carry wholesaler carries goods in stock but does not give free delivery nor extend credit to retailers. He frequently does not have outside salesmen. The retailers come to his store, select their goods, pay cash for them and haul them home; or they may order by telephone and have the goods delivered on a C.O.D. basis. The cash-carry wholesaler eliminates the expenses of traveling salesmen, of extending credit and making collections, and of a considerable portion of the bookkeeping expense.

In the grocery trade, service wholesalers ordinarily have expenses of from 8 to 12 per cent, while the cash-carry wholesalers have an expense of 4 to 5 per cent.[2]

[1] In some cases the manufacturer performs the entire selling function, the wholesaler being used only for storing, dividing, extending credit to the retailers, and keeping account of the transactions. The manufacturer's specialty salesmen apparently add to marketing expense.

[2] Census figures in the grocery trade for 1929 show average expenses of 9 to 10 per cent for service wholesalers and 3 to 5 per cent for cash-carry wholesalers.

Although this indicates a saving of 4 to 7 per cent, it is not all net saving to the retailer, for he must go after the goods in his delivery wagon or pay for this delivery. He must also consider the interest on the money when he buys for cash. Nevertheless, there is a saving to the retailer on staple merchandise. In order to meet chain store prices, many independent retailers are patronizing cash-carry wholesalers, or cash-carry departments of service wholesalers. Figures for limited function wholesalers were published in the 1929 Census and are shown in Table 4.

TABLE 4.—SALES AND EXPENSES OF LIMITED FUNCTION WHOLESALERS IN 1929

Type of Wholesaler	*Number of Establishments*	*Sales (millions)*	*Ratio of Sales to Inventory*	*Expense (% of Sales)*
Cash-carry	756	179	11.0	5.7
Drop shippers	583	242	96.1	6.5
Mail-order	41	46	6.0	22.6
Truck ("wagon jobbers")	817	90	32.1	18.8

Truck wholesalers.—Truck distribution has had a considerable growth in recent years, particularly in the food trades. Truck, or wagon, wholesalers carry the goods with them and sell and deliver as they call upon the retailers. They usually sell for cash or for very short credit periods. Truck wholesalers are found especially in the businesses of handling perishable foods and food specialties, such as cheese, salad dressing, potato chips, bakery goods, fruits, and vegetables.

Much of the growth of truck distribution is due to the operation of trucks by manufacturers, especially in the distribution of gasoline, and foodstuffs—bread, cakes, pies, ice cream, meat, coffee, salad dressing, and so forth.

The drop shipper.—The drop shipper, or desk jobber, is a wholesaler who buys and sells goods without having

them in stock. He has title to the goods, so that he is a merchant and not an agent. He solicits orders and has the railroad (or truckman) deliver the goods to his customers. His method of operation saves warehouse expenses and he is found especially in the handling of heavy goods such as building materials. When the drop shipper deals only in carlots, he may have expenses of 1 or 2 per cent as compared with 5 to 20 per cent for the service wholesaler handling similar goods.

The mail-order wholesaler.—The mail-order wholesaler receives orders by mail and not by salesmen. He issues catalogs from which the buyers make their selections. This method of operation saves the expense of a sales force. Wholesalers receive many orders by mail. The Census, however, found very few wholesalers who secured the bulk of their business in this way.

Semi-jobber.—A semi-jobber is a merchant who conducts both a retail and a wholesale business in one establishment. Semi-jobbers are important in the sale of hardware, farm implements, building materials, coal, office and store equipment, motor vehicles, and oil and gasoline.

Mutual wholesalers.—The mutual wholesaler is a private wholesale establishment in which the retailers buy stock or make deposits in order to secure buying privileges. The mutual wholesaler ordinarily does away with outside salesmen. Orders are received by telephone and by mail. Credit is limited, often to the value of the stock owned or the deposit made by the retailers. Delivery service is often limited or charged for extra. Overhead expenses are reduced by cheap-rent locations, modest fixtures, and a limited number of executives. Little of the slower moving merchandise is handled. The

mutual wholesaler thus resembles the cash-carry wholesaler in some respects and has similar or slightly higher operating expenses.

Operating expenses.—The wholesaler's expenses are made up of expenditures for labor, rent, delivery, advertising, traveling, light, heat, and so forth. These items he thinks of as his cost of doing business. From the standpoint of his customers and the consumers, his cost to them is measured by the entire margin which he takes between the price which he pays for goods and the price he receives for them—that is, by his operating expenses plus his profit. Wholesalers, as a rule, have lower operating expenses than retailers, owing to the larger units in which goods are handled. A salesman can sell a dozen cases in about the same time as one can or package. The carlot wholesaler has lower expenses than the jobber. The expenses of wholesalers vary with the size of the units in which goods are bought and sold and with the service rendered.

The operating expenses of the wholesale merchants in the 20 trades having the largest volume of sales for 1933 are shown in Table 5 on page 118. As previously indicated, operating expenses were high in this year.

Expense and size.—When the wholesalers are grouped by size as measured by volume of sales (Table 5), the average percentages of expense decrease as sales volume increases. This fact indicates that wholesaling is a business of decreasing cost—that is, that the larger the volume of sales, the less the cost of doing each dollar's worth of business. This statement must not, however, be accepted without considerable modification. It may be that there is a difference in the services performed by large and small wholesalers. In 14 of the 20 trades shown in Table 5 there were too few wholesalers with

TABLE 5.—EXPENSES OF WHOLESALE MERCHANTS BY SIZE FOR 1933[a]

(Percentages of Expense)

Sales Volume	*Average*	*$50,000–99,999*	*$200,000–299,999*	*$300,000–499,999*	*$500,000–999,999*	*$1,000,000–1,999,999*	*$2,000,000–4,999,999*	*$5,000,000–9,999,999*	*$10,000,000 and over*
Groceries, gen. line	9.3	10.3	9.4	5.0	9.8	9.9	10.5	14.9	14.0
Meats	14.3	17.8	15.0	14.8	13.8	11.1	*b*	*b*	*c*
Dairy & poultry	12.2	14.4	12.6	11.9	15.3	13.4	8.1	5.1	*c*
Poultry	9.9	13.2	10.5	11.7	9.8	6.7	4.0	*b*	*c*
Confectionery & soft drinks	18.9	22.1	16.9	11.8	11.2	18.1	*b*	*b*	*c*
Fruits & veg.	11.2	14.3	12.7	10.2	10.1	10.0	5.7	10.8	6.2
Other food specialties	15.2	8.5	14.9	14.3	10.3	12.8	19.6	34.4	12.5
Drugs	15.1	23.5	15.5	14.7	16.3	15.8	14.6	*b*	*b*
Paper, gen. line	20.0	20.6	21.4	20.1	22.0	18.1	14.9	*c*	*c*
Dry goods	16.0	14.6	18.3	17.3	16.0	15.7	15.7	*b*	*b*
Piece goods	11.3	16.7	12.8	12.2	11.4	10.9	8.4	*c*	*c*
Women's clothing	15.1	17.7	15.5	19.5	17.5	15.9	*b*	*b*	*c*
Hardware	21.3	24.1	22.9	22.3	21.3	20.1	20.1	*b*	*b*
Auto equip.	29.2	30.7	27.8	28.1	22.6	*b*	*b*	*b*	*c*
Electrical	21.7	25.8	19.6	21.7	20.3	20.4	13.9	*c*	*c*
Mill & mine supplies	20.0	24.0	21.1	19.5	17.5	15.9	*b*	*b*	*c*
Bldg. materials	28.2	30.6	29.7	22.8	25.9	*b*	*b*	*c*	*c*
Cotton	6.4	4.2	3.9	4.0	4.9	2.7	6.8	2.7	9.8
Grain	7.1	9.0	11.3	10.8	10.7	10.4	4.9	6.9	3.3
Wool & mohair	7.0	13.1	6.1	9.3	4.9	7.2	8.8	*b*	*b*
AVERAGE	15.5	21.2	17.5	14.6	13.9	13.4	12.2	11.1	10.1

[a]Table includes the 20 largest of the 114 trades and omits, for brevity, some size groups.
[b]Too few establishments to give fair average.
[c]No establishments reported.

sales of over $5,000,000 to allow averages to be computed. Out of 79,032 wholesalers covered by the Census figures, about 70 per cent had sales under $100,000; only 1,827 reported sales of over $1,000,000; and only 45 houses reported sales of over $10,000,000. It is evident that the advantage of lower operating expenses is insufficient to produce any considerable number of large wholesalers. In many of the trades, medium-sized wholesalers have lower expenses than large wholesalers. From these facts we may conclude that on the average large wholesalers have somewhat lower expenses than small wholesalers, but that small and medium-sized wholesalers have certain advantages in contrast with large wholesalers. One of these advantages is their proximity to customers, thus permitting quick delivery of goods and frequent personal contacts with them.

Location.—Data gathered by the Census does not show any particular relation between a wholesaler's expenses and the size of the town in which he is located. In other words, a wholesaler in a large city may be able to operate as economically as a wholesaler in a small town in spite of the higher scale of wages in the city.

Private brands.—Many wholesalers have adopted brands of their own under which they sell a part of their goods. Many of the larger retailers, such as chain and department stores, also have their own brands. Such brands are often called *private* brands to distinguish them from the manufacturer's nationally advertised brands. Some of the private brands, however, have also been advertised. Goods for sale under private brands may be purchased from smaller manufacturers who have not established their brands on the market, they may be bought from larger manufacturers who are unable to sell all of their goods under their own brands

or they may be produced in plants owned by the wholesalers or retailers.

Advantages of private brands: *Control.*—There are several reasons why wholesalers have their private brands. First, they own the brands, which cannot therefore be taken from them by the manufacturer. Wholesalers have sometimes had the manufacturer take from them a brand which they had sold for years and sell it direct to the retailers or through exclusive agencies. The wholesaler must then take on other brands which are not so well known to his customers.

Quality.—The wholesaler is often unable to control the quality of goods sold under the manufacturer's name. When he sells goods under his own brand name, he claims that he can maintain a more uniform and a superior quality. This he says he can do because he can buy from various manufacturers. If the product of one declines in quality, he can buy from another. Tests of canned fruits and vegetables show no substantial difference in the quality of the goods sold under manufacturers' brands and under private brands.

Price.—Manufacturers' nationally advertised brands are frequently used as cut price leaders by retail stores. Other retailers are thus forced to insist upon buying such goods at prices low enough to enable them to meet the prices of cut-price stores, which often means that such goods are sold with little or no profit by both wholesalers and retailers. Wholesalers, therefore, often resort to private brands to meet this situation.

Goods to be sold under private brands can usually be bought cheaper than goods bearing the manufacturer's label. A study by the Federal Trade Commission shows that, as a rule, the wholesaler buys goods for his private brand at a lower price than goods under a manufacturer's

well-known brand, sells them to the retailer at a lower price, and at the same time makes a larger margin. The retailer, in turn, buys goods under a private brand cheaper than similar goods under national brands, sells them at a somewhat lower price, and at the same time makes a larger margin. This is shown by the figures in Table 6, which give averages for groceries and dry goods.

TABLE 6.—COSTS, SELLING PRICES, AND MARGINS OF WHOLESALERS AND RETAILERS ON NATIONAL AND PRIVATE BRANDS

(Federal Trade Commission's Figures)

	Groceries		Dry Goods	
	National Brand	*Private Brand*	*National Brand*	*Private Brand*
Wholesaler's buying price	$1.00	$0.85	$1.00	$0.85
Wholesaler's price to retailer	1.13	0.99	1.19	1.05
Retailer's price to consumer	1.45	1.32	1.80	1.63
Margin, per cent of sales:				
Wholesaler	11.4	13.9	15.6	19.4
Retailer	22.0	24.9	33.9	35.5

It will be noted in these cases that the wholesalers bought goods for their own brands 15 per cent lower than similar goods bearing the manufacturer's label. In the case of drugs there was a difference of 19 per cent, and in the case of hardware, 16 per cent.

If we take a nationally advertised grocery item that cost the wholesaler $1, a similar article could be purchased for sale under his own brand for 85 cents. The wholesaler sold the nationally advertised brand to the retailer for $1.13, while he sold his private brand for 99 cents. The retailer sold the manufacturer's brand to the consumer for $1.45, whereas he sold the private brand for $1.32. The consumer thus saved 13 cents by buying the private brand. The wholesaler made 11.4 per cent margin on the national brand and 13.9 per cent on the private brand. The retailer made 22 per

cent on the national brand and 24.9 per cent on the private brand. Both the wholesaler and retailer secured larger percentages of margin on the private brand and passed on a part of the saving to the consumer.

Disadvantages of private brands.—The manufacturer of nationally advertised goods does not admit the advantages of private brands listed above. He claims that his goods are of superior quality to those sold under private brands. He says that a producer is more careful of the quality of goods bearing his own name than of goods sold under another's name. He also argues that there is so much consumer demand for his advertised goods that they can be sold at much lower expense than goods under unknown private brands. Even if the wholesalers and retailers make larger margins on private brands, he argues, they have larger expenses in selling them and so make more net profit on well-known nationally advertised goods. More time and sales effort are required to persuade the customers to accept private brands than national brands which are widely known. He also says that the wholesaler must buy goods for his private brands in larger quantities and store them longer, so that the storage expense is higher and stock turnover reduced.

Conclusion on private brands.—Information at hand is insufficient to allow a definite statement to be made as to the cost of selling national and private brands. Many private brands are now well known in the territories where they are sold and are generally accepted by the consumers. In such cases, little if any more effort is required to sell them than that required to sell national brands. It does require more time to sell unknown brands than to sell brands which are well and favorably

known; this is true whether the unknown brand is a private brand or a manufacturer's brand.

Future of the wholesaler.—Many manufacturers have established their own selling organizations and sell direct to the retailers. Unless they have several products to sell, their expenses of selling the retailers are likely to be higher than those of the wholesaler. Some manufacturers sell direct to the retailers in spite of the higher cost, in order to put more sales effort behind their goods and secure a larger volume of sales. Large retailers, such as department and chain stores, often buy many of their goods direct from the manufacturers and use the wholesaler only for fill-in lots when they are out of stock. These transactions tend to reduce the volume of business done by the wholesaler. Some observers have predicted the eventual elimination of the wholesaler from the trade channel. As long as we have small retailers and small manufacturers, however, the wholesaler is a necessity. The small manufacturer cannot afford to sell direct to the retailers, and the small retailers cannot afford to contact the manufacturers. For this reason, we shall continue to have wholesalers.

When we talk about eliminating the wholesaler, we mean eliminating the independent wholesaler and not his functions. The wholesale functions appear to be necessary. When direct connections are established between the manufacturer and the retailer, the wholesale functions are shifted to either the manufacturer or the retailer. The manufacturer's branch house and the chain store warehouse are performing the wholesale functions. They may or may not be able to perform these functions more cheaply than the independent wholesaler.

Chapter 7

Review Questions

1. Define the term "wholesaler." How are wholesalers classified?

2. What is the place of the wholesaler in the trade channel?

3. What can you say of the wholesaler of industrial goods?

4. Is there a distinction between a wholesaler and a jobber? What is meant by a carlot receiver?

5. Of what use is the wholesaler to the retailer?

6. Of what use is the wholesaler to the manufacturer?

7. What can you say of the importance of wholesalers?

8. What functions does the service wholesaler perform? Which are the more important ones?

9. Why should goods be stored near the points of consumption?

10. How does the wholesaler perform the dividing function?

11. How does the service wholesaler perform the selling function?

12. Is it cheaper for the wholesaler or the manufacturer to sell to retailers? Why?

13. What are specialty salesmen, as the term is used in this chapter?

14. Why do the manufacturers employ specialty salesmen?

15. What are cash-carry wholesalers? Why do they exist? How do they reduce expenses?

16. How do truck wholesalers operate? What services do they perform?

17. What is a semi-jobber?

18. What determines the costs of operating a wholesale business?

19. Why can a wholesaler operate more cheaply than a retailer handling the same kind of goods?

20. What is the relation between a wholesaler's volume of sales and his expenses?

21. What is the relation of a wholesaler's expenses and the size of town where he is located?

22. What are private brands? What are the advantages and disadvantages to their owners?

23. What can you say of the cost of private brand goods to wholesalers, retailers, and consumers? What of the wholesaler's margin on such goods?

24. What can you say of the quality of goods sold under private brands?

25. What can you say of the future of the independent wholesaler?

Thought Problems

1. The manufacturer has often considered the wholesaler as his sales department. On the other hand, the retailer has thought of the wholesaler as his supply department. Which is correct? Why?

2. Why do retailers buy in such small lots? Some manufacturers and wholesalers have applied cost accounting to their activities and have refused to sell to retailers who buy in such small quantities that doing business with them is unprofitable. Is this a wise policy? How does it affect the retailers?

3. The wholesaler has been criticised for extending credit too laxly, for setting people up in the retail business who lack sufficient capital or ability for success. If this is true, why are the wholesalers so lax? What proposals for improving conditions can you suggest?

4. Manufacturers of advertised brands often allege that the quality of goods sold under private brands is inferior to that sold under nationally advertised brands. They say that the manufacturers often sell seconds to the wholesalers for

their brands; that the manufacturer of goods sold under private brands is unknown to the public and hence that he has no incentive to maintain the quality of his goods; and that the wholesalers buy on a price basis and must take only what they can get to sell under their own brands.

On their side, the wholesalers argue that the goods under their private brands are superior to those under the manufacturer's advertised brands. They say that a manufacturer will at times secure poor goods owing to poor raw materials or labor troubles, whereas the wholesalers can buy wherever they can secure goods of the desired quality. They do not have to buy from any one factory. If one manufacturer's goods go bad, they buy elsewhere. Also, they can use greater care in selecting the goods than can large manufacturers who produce tremendous quantities.

(a) Comment on these arguments.

(b) Name some private brands and some manufacturer's brands used on similar goods.

(c) Which do you believe to be of superior quality, goods sold under private brands or nationally advertised brands?

5. The statement has been made that the wholesaler can be eliminated but that his functions cannot be eliminated. What does this statement mean? What do you think of its truth?

Chapter 8

Retailing

Functions of retailers.—The retailer is the merchant who sells goods to the household consumer. His job is to anticipate the needs of the consumer and to have a selection of the desired goods in a convenient place at the time the consumer wants them. In order to do this he must perform several marketing functions, among which the more important ones are: selling, storing, buying, and dividing. Others are risking, financing, transporting, packing, managing, and recording.[1]

Today we think of selling as one of the chief functions of the retailer. He displays his goods in his windows and in his store to attract buyers. He advertises them in the papers. He employs salesmen to show and explain the goods to customers.

The retailer stores the goods in locations convenient to his customers. The places where the retailers conduct their businesses are usually called *stores,* which may indicate the historical importance of the storage function.

The retailer must buy goods. It is sometimes said that he is the purchasing agent for his community. He must find out what his customers want, negotiate terms of purchase, and assume title to the goods. The small retailers do little to seek out sources of supply; they usu-

[1] The other two, assembling and grading, are minor functions for most retailers.

ally select their goods from those offered by the wholesalers. Buying is relatively more important with the wholesaler while selling is relatively more important with the retailer. Large retailers often seek out sources of supply, but in so doing they are really performing a wholesale function.

The retailer must divide the goods into the quantities desired by his customers. The word *retailer* is said to be derived from a word meaning "to cut again," that is, to divide. The retailer weighs and measures goods that come in bulk and unpacks goods that come in cases, so that they may be sold by the package.

Risk is involved in carrying goods in stock and in selling on credit. The retailer not only must finance his stock of goods but often extends credit to the buyers. He in turn, however, often receives liberal credit from the wholesalers, thus reducing the amount of capital necessary to conduct his business. The wholesaler often delivers the goods to the retail store; in other cases the retailer has them delivered by railroads or truckmen. The retailer often delivers the goods to his customers, usually packing (or wrapping) them. Records should be kept of purchases, expenses, and sales, and the business must be managed.

Volume of retail business.—The retail stores of the country made sales totaling 49 billion dollars in 1929 and 25 billion dollars in 1933. The year 1929 was a year of prosperity, whereas 1933 was a year of severe depression. Retail business was somewhat above the average or "normal" in 1929 and considerably below the average in 1933, the decline in sales being 24 billion dollars. Of this amount approximately two-thirds was due to a decline in prices and about one-third to a decline in the quantity of goods sold. The sales of stores selling perish-

able necessities decreased least. In this group were variety stores,[2] automobile repair shops, and retailers selling foods, gasoline, drugs, and coal. Most of the decline was in the sales of stores selling durable goods, such as automobiles, building materials, radios, furniture, and jewelry. Figures covering the two years are shown in Table 7.

TABLE 7.—BUSINESS OF RETAIL STORES IN 1929 AND 1933

	1929	*1933*	*Per Cent Decline*
Number of stores	1,543,158	1,526,119	—0.5
Total sales (in thousands)	\$49,114,653	\$25,037,225	—49
Total number workers	5,913,547	5,008,093	—15
Average salary per full time employee	\$1,312	\$986	—25
Per cent of sales made on credit	34	28	
Expense of doing business, per cent of sales*	24.8	29.4	

* Includes imputed wage for proprietors at rate paid employees.

The total volume of sales made by retail stores is not the same as the total quantity of goods sold at retail. Retailers make some sales at wholesale, and wholesalers make some sales at retail. Some retailers also receive money for such services as repairing and storing merchandise. Many producers, such as publishers, manufacturers, miners, and farmers, sell direct to the consumers. We may estimate that the total volume of goods sold at retail amounted to more than 52 billion dollars in 1929 and more than 27 billion dollars in 1933.[3]

[2] The sales of variety stores, commonly called "five and ten cent stores," decreased less than the average, presumably because people economized by buying cheaper goods, and because lower prices brought a greater variety of goods within the price range of these stores.

[3] Retail sales made by wholesalers amounted to 586 million dollars in 1933, while wholesale sales by retailers were 462 million dollars. Sales of services by retailers were 568 million dollars in this year. Di-

The volume of retail sales has been increasing since 1933.

Sales on credit totaled 17 billion dollars in 1929 and 7 billion dollars in 1933. One-half of the stores extend credit, and about one-half of their sales are made on credit and one-half for cash.

Types of retailers.—There are many types of retailers: the corner grocer, the huge department store, the mail-order house, the news stand, the filling station, the coal yard, the milk distributor, the restaurant, and the refreshment stand are all retailers. Retailers may be classified in many ways, the most usual grouping being according to the type of goods sold. The number of stores, with their total sales and expenses for the more important types of goods, is shown in Table 8.

Food is easily the most important commodity sold by retailers, accounting for fully one-third of the total sales in 1933. In addition to that sold in food stores, large quantities of food are sold by country general stores, drug stores, department stores, and variety stores. The sale of automobiles, gasoline, oil, tires, accessories, and repairs is second in importance, accounting for more than one-sixth of the total sales in 1933. The proportion is larger in prosperous years. Clothing is sold not only by

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rect sales made to consumers by farmers, publishers, manufacturers, and coal mines must run into the billions. The Census missed sales of illegal products and sales by retailers who were out of business when the Census was taken. It covers only sales made by concerns with established places of business, and hence apparently missed the sales made by many house-to-house salesmen, farmers, roadside stands, and newsboys.

All goods sold at retail are not consumption goods. Industrial goods sold by retailers include motor trucks, gasoline and oil for business vehicles, and automobiles used for business purposes; farm equipment; office supplies; and artisan's tools.

The Census figures include meals sold by restaurants and hotels but not by boarding houses, clubs, labor camps, and so forth.

TABLE 8.—SALES OF VARIOUS TYPES OF RETAIL STORES, 1933

Type of Store	*No. of Stores*	*Vol. of Sales (thousands)*	*Per Cent of Total Sales*
Food:			
Grocery	163,538	$1,803,242	7.2
Grocery and meat	140,372	3,201,042	12.8
Meat	38,344	491,866	2.0
Restaurants	170,434	1,324,387	5.3
Drinking places	29,901	105,551	0.4
Other	121,662	1,296,860	5.1
Total	674,251	8,222,948	32.8
Automotive:			
Vehicle dealers	30,646	2,127,720	8.5
Filling stations	170,404	1,531,724	6.1
Repair garages and shops	86,454	519,827	2.1
Accessories and other	17,899	239,978	1.0
Total	305,403	4,419,249	17.7
Apparel	86,548	1,923,333	7.7
General:			
Country general	85,839	1,097,437	4.4
Gen. mdse and dry goods	34,122	668,145	2.7
Department	3,544	2,544,960	10.2
Variety (5¢ to $1)	12,046	678,167	2.7
Total	135,551	4,988,709	20.0
Furniture and furnishings	42,976	958,780	3.8
Building materials	43,296	854,219	3.4
Hardware, farm implements, and supplies	54,446	951,830	3.8
Coal, wood, and ice	23,875	623,077	2.5
Drug	58,407	1,066,252	4.2
Second hand	20,869	105,275	0.4
Other	80,497	923,553	3.7
ALL	1,526,119	$25,037,225	100.0

apparel stores but by department, dry goods, general, and variety stores. One-sixth of the sales of retail stores in 1933 consisted of various kinds of clothing. Clothing apparently took more of the consumer's dollar than automobiles, since a considerable part of the trucks, automobiles, and gasoline are used for business purposes and not for personal consumption. Other important types of goods sold at retail are furniture and home furnishings; building materials; farm equipment and sup-

plies; hardware; coal; ice; drugs; tobacco; and jewelry.

Basis of operation.—Retail stores are often classified according to ownership or method of operation. Independent stores usually consist of single stores operated by their owners. Chains consist of several stores under one ownership and management. Direct sellers are those who send salesmen from house to house rather than have the consumers come to their places of business; mail-order houses solicit business by mail. Commissaries are stores operated by industrial companies, such as mines, mills, or factories, primarily to sell goods to their employees. Many public utilities, such as gas and electric companies, operate stores primarily to promote the sale of gas and electricity by the sale of appliances using these products. The number of such stores and their sales, for 1929 and 1933, are shown in Table 9. It will be seen that the chains and direct sellers increased their proportion of the business between 1929 and 1933. In the case of direct sellers, the increase may have been due

TABLE 9.—SALES OF RETAIL STORES OPERATED IN DIFFERENT WAYS

Type of Organization	Number of Stores		Sales			
			1929		*1933*	
	1929	*1933*	Volume (millions)	% of Total	Volume (millions)	% of Total
Independents	1,375,509	1,349,337	$38,082	77.5	$17,827	71.2
Chains	148,037	141,603	9,835	20.0	6,313	25.2
Direct selling	1,661	7,026	94	0.2	187	0.7
Mail order	271	311	515	1.0	244	1.0
Commissaries	1,347	2,719	116	0.3	96	0.4
Public utility stores	4,053	4,127	163	0.3	76	0.3
Other types	12,280	20,996	310	0.7	294	1.2

to a more complete coverage by the Census in the latter year.

Location.—Stores may be grouped for study on the basis of location, for stores in different types of locations have certain problems in common. The more important types of locations are: rural stores, located at country crossroads, in villages, and in small towns; trading center stores, located in the county seats and smaller cities scattered throughout the country; shopping center stores, located in the shopping districts of the larger cities; neighborhood stores, situated in the smaller business districts and residential areas of cities; and suburban stores, operating in suburban towns adjacent to larger cities.

Integrated and non-integrated stores.—Integrated stores are those which perform both the wholesale and the retail functions. Large stores, such as department, chain, and the larger specialty stores, are often large enough to buy from manufacturers direct and perform the wholesale functions of buying, storing, and financing in addition to their retail functions.

Basis of study.—The next chapter will be devoted to a study of independent stores, which will be classified on the basis of their location. Following this we shall take up department stores, mail-order houses, chain stores, and the efforts of the independent stores to compete with the large integrated stores.

Expenses.—The average expenses of all retail stores was reported by the Census as 24.8 per cent of sales in 1929 and 29.4 per cent of sales in 1933. The higher expense ratio in 1933 was caused by the fact that during periods of depression and falling prices sales decline faster than expenses. Sales fell off 49 per cent during these four years, while payroll declined 42 per cent, owing to a reduction in the number of employees and wages paid,

and other expenses declined 31 per cent. It is usually true in periods of changing prices that the prices of commodities change more rapidly than wages, rents, and the rates for advertising, electricity, gas, water, telephones, and transportation. Such items make up most of the dealer's expenses. Thus in periods of rising prices, the dealer's percentage of expense usually declines, while in periods of falling prices his expense percentage usually rises. When the volume of sales changes quickly, owing to a change in purchasing power, there is a similar lag in expenses. The dealer's profits usually increase during a period of rising prices and decrease during a period of falling prices. The expenses of retailers were abnormally high in 1933.

Reasons for variations in expenses.—The expenses of individual retail stores vary with the efficiency with which they are operated. Average expenses vary with the location and the type of goods handled. The expenses of retail stores (as measured in percentages) increase with the size of the towns in which the stores are located. This increase is due to higher wages and to higher percentage costs for rent, advertising, and delivery in the larger towns.

Average expenses vary with the type of goods sold, owing to the shopping habits of the consumers; the value of the units in which goods are sold; the regularity of sales; and the locations of the stores. The expenses of country general stores are low largely because of their location. The expenses of grocery stores are low because people do little shopping around for groceries, and when they enter a store, they usually make a purchase; because grocery stores have fairly regular sales throughout the year; and because many of them are located in small towns and residential districts. Automobile dealers have

fairly low expenses because of the large units in which their products are sold. Clothing stores sell in moderately large units but have fairly high expense owing to their irregular sales and to the shopping habits of the buyers; the salesmen must show goods to many people who do not buy. Jewelry stores have high expenses because of irregular sales, shopping habits, and expensive locations. A very large part of the jewelry is sold in December for Christmas gifts. Furniture stores sell in large units but have irregular sales, and the consumers

TABLE 10.—EXPENSES OF OPERATING RETAIL STORES

Type of Store	*Operating Expenses* (Percentages of Sales)* 1929	1933
Grocery	17.4	20.0
Grocery and meat	16.1	19.9
Meat	19.6	27.5
Milk and dairy products	37.4	39.7
Restaurants	40.0	44.9
Country general	13.6	17.0
Variety	25.0	28.9
Dry goods and gen. mdse	22.5	26.1
Automobile dealers	17.8	21.2
Filling stations	23.8	27.4
Hardware	22.8	29.2
Tobacco	31.4	27.6
Department	28.4	32.7
Women's clothing	29.1	32.1
Men's clothing	28.9	34.3
Shoes	29.4	32.4
Drug	27.1	30.9
Lumber	21.8	31.0
Coal and ice	24.8	30.8
Furniture	31.1	40.7
Jewelry	35.5	47.9
AVERAGE ALL TYPES	24.8	29.4

*Includes salaries for the owners active in the business at the average rate paid to full-time employees. In 1933 for stores with sales under $10,000, salaries for proprietors were included as those for full-time employees only in the proportion that actual sales bore to $10,000. Thus, if sales were $5,000 only, one-half of the average salary was included for the proprietor.

shop extensively. The drug store has fairly high expenses, owing to small average sales and often to downtown locations.

The expenses of various types of stores are shown in Table 10. The average expense figures cover stores lo-

TABLE 11.—RELATION OF RETAIL EXPENSES TO SIZE OF TOWN
(Illinois, 1929)

Town Size	*Average Expenses (Percentage of Sales)*
Under 10,000	20.8
10,000- 30,000	24.4
30,000-100,000	25.5
30,000-100,000 (suburban)	26.8
Chicago (3,376,438)	29.3

TABLE 12.—EXPENSES OF RETAIL CLOTHING STORES ACCORDING TO SIZE OF TOWN*

Town Size	*Number of Stores*	*Average Expenses (Percentage of Sales)*
Under 10,000	471	18.0
10,000- 20,000	141	20.8
20,000- 40,000	139	21.9
40,000-120,000	136	24.5
120,000-200,000	44	26.3
200,000-440,000	34	24.3
440,000 and over	30	31.5
TOTAL AND AVERAGE	995	22.7

*Figures from Northwestern University Bureau of Business Research for the years 1914, 1918, and 1919 combined.

TABLE 13.—EXPENSES OF RETAIL HARDWARE STORES WITH SALES OF $25,000 TO $40,000, ACCORDING TO SIZE OF TOWN, 1934.

Population of Town	*Percentage of Expense*
Under 1,000	22.4
1,000- 3,500	24.5
3,500-10,000	27.4
10,000-50,000	29.0
50,000 and over	31.6

cated in all sizes of towns. Various types of stores in small towns have expenses which are usually 2 to 4 per cent lower than the average for the entire country, while those in large cities will have expenses which are 1 to 4 per cent above the average. (Coal and ice dealers furnish an exception to this statement.) This difference means that the city stores must charge higher prices, or they must buy their goods more cheaply if they are to sell as cheaply as the country stores.

Size of stores.—Retailing has been traditionally a small-scale industry. Most retail stores have been small and have been operated by their owners with only the assistance of members of their families or a few hired employees. Improvement in transportation facilities and in the art of management has, however, made possible the growth of large stores. Improved railroad and mail facilities have made possible the development of large stores selling over wide areas by mail. The growth of large cities and the development of street car, subway, and suburban train service have produced large department and specialty stores in the shopping districts. More recently, chains have grown rapidly by operating a number of stores in locations convenient to the consumers. Large stores have increased in size until stores with sales of over $1,000,000 do 10 per cent of the total business and stores with sales of over $100,000 do about one-fourth of the total business. If chains are included as large stores, then large stores may be said to do more than one-third of the total retail business.

In 1933, nearly two-thirds of the retail stores of the country had sales of less than $10,000. These stores, however, did only 14 per cent of the total business. Poor business and low prices in 1933, however, reduced the sales volume of most stores so that the number of stores

with small sales was greatly increased. For this reason 1933 conditions can scarcely be taken as normal. The number of stores of various sizes, together with their sales, are shown for 1929 in Table 14.

TABLE 14.—NUMBER AND SALES OF RETAIL STORES ACCORDING TO SIZE, 1929*

Number of Stores	*% of Total Number*	*Sales Volume*	*% of Total Sales*
419,378.....	27.2	Under $5,000	2.0
254,308.....	16.5	$5,000– 10,000	3.7
312,865.....	20.3	10,000– 19,999	9.0
173,458.....	11.2	20,000– 29,999	8.6
176,767.....	11.4	30,000– 49,999	13.7
128,869.....	8.4	50,000– 99,999	17.8
49,497.....	3.2	100,000– 199,999	13.7
12,966.....	0.8	200,000– 299,999	6.4
8,467	0.6	300,000– 499,999	6.5
4,524.....	0.3	500,000– 999,999	6.3
2,059.....	0.1	1,000,000 and more	12.3
1,543,158.	100.0		100.0

* Each store in a chain considered as a separate store.

Operation of very small stores.—A store with sales of $5,000 a year has sales of only $16 a day.[4] A lunch stand with a margin of 40 per cent has a daily average margin of $6.40, while a grocery with a 20 per cent margin has only $3.20 per day out of which to pay expenses and profits. Out of this margin the retailer must pay for rent, fuel, light, wrapping materials, taxes and licenses, advertising, delivery, and interest, and he must also take his own wages. Some of these small retailers may do little or no advertising, borrow no money, and make no deliveries. Even when this is the case, their margin leaves very little for their own time after they pay other expenses. It has generally been supposed that one man

[4] In 1933 in many states more than one-third of the stores had less than this volume of sales.

should sell at least $10,000 worth of goods per year in a retail store. The sales vary according to types of merchandise and the price level. In 1929, two out of every five retail stores had sales of less than $10,000. and one

Courtesy The Red Barrel.

Fig. 10.—The wife helps run the store. In stores with sales of less than $10,000 a year, members of the family often do much of the selling in conjunction with other work. Something like one-half of the retail stores have sales of less than $10,000.

of every four stores had sales of less than $5,000. If $10,000 is the minimum sales volume for an efficient use of the time of one man, we may infer that all of these small stores are inefficient and should be put out of business.[5] This conclusion does not necessarily follow. Some

[5] The average sales per full-time employee in all types of retail stores were approximately $9,000 in 1929 and $5,600 in 1933. The average is reduced by the inclusion of restaurants and other establishments using labor in preparing or repairing goods. Averages for various types of stores are shown in Chapter 22. The figure of $10,000 given as the average minimum amount of goods that a man should sell in most types of retail stores is based on prices prevailing between 1915 and 1931. If prices remain substantially below those prevailing during this period, the figure will have to be changed.

of these small stores are so located that they are a real convenience to their customers, as, for example, a country filling station, a village drug store, or a lobby news stand. Some are operated by persons who perform other services in addition to selling goods, such as cooking foods, repairing watches, tires, clothing, automobiles, electrical appliances, and shoes, and plumbing; and some make hats or clothing. Many of these small stores are conducted in homes and much of the selling is done by the wife or children while the husband is at other work. Many are operated by people who would otherwise be unemployed. Some are operated by people too old to hold strenuous jobs. In fact, a great many of the small stores are started by people who are out of work and have nothing else to do. Such people seldom have training or experience that fits them for retail business. However, if these people cannot be given other work, it may be better to have them engaged in retailing than to be on public relief or charity.

Many small stores are inefficient and should be closed if retailing is to be conducted more efficiently. We hear many demands that the cost of distributing goods be reduced. Large organizations, such as chain stores, often reduce distribution costs through integration, large-scale buying, and efficiency of operation. On the other hand, we hear many demands that the growth of large retail organizations be stopped in order to protect the small dealers and to give our young men an opportunity to establish their own businesses. Some states have imposed high taxes on chain stores to restrict their growth. Here is a definite conflict of opinion. Should large organizations that are able to sell goods somewhat more cheaply be handicapped in order to allow men with small capital and limited training to operate stores? There is much to say on each side of the question.

Chapter 8

Review Questions

1. What are the principal retail functions?

2. Name the less important retail functions.

3. Which is more important in retailing, buying or selling? Why?

4. What was the volume of business done by our retail stores in 1929? 1933?

5. What is the difference between volume of sales of retail stores and total volume of goods sold at retail?

6. What is the relative importance of each of the following items in our retail trade: clothing; automobiles; building materials and supplies; household furniture and furnishings; food?

7. What are the principal types of retail stores? What can you say of the relative importance of stores operated on different bases?

8. Why did expenses of retailers increase between 1929 and 1933?

9. Are retail expenses higher in large cities or small towns? Why?

10. Why do the expenses of different types of stores vary?

11. Why has retailing been a small-scale industry?

12. How do you explain the growth of large retail stores in the United States?

13. How do you explain the existence of so many small retail stores?

Thought Problems

1. What were the per capita retail sales in 1929 and 1933?

2. The Census figures show a lower per capita retail business in the rural districts (and states) than in the large cities.

Does this mean that the rural population has a lower standard of living?

3. The Census figures show that many of the smaller cities have a higher per capita retail business than the large cities. Does this mean that the smaller cities enjoy a higher standard of living? What other explanations can you offer?

4. The Census figures show that the college and university towns often have a high per capita retail trade. Why?

5. Assuming that large stores can sell goods somewhat more cheaply than small stores, should large stores be hampered by high taxes and other forms of restrictive legislation?

CHAPTER 9

Independent Stores

The independent store.—Most independent stores are small non-integrated concerns that perform only the retail functions and buy their goods from wholesalers and from integrated manufacturers who perform the wholesale functions. The small general and specialty stores are the typical non-integrated retailers. They are called independent, unit, and individual stores.

The independent store is usually a small store owned and operated by a proprietor or by two or three partners. Independent stores may be classified according to their location or according to the type of goods handled. We are, perhaps, most accustomed to think of stores according to the class of goods handled; for example, grocery stores, drug stores, hardware stores, clothing stores, and so forth. For our purposes, however, location appears to offer a more logical and practical classification and will be used in this chapter.

Common problems of small stores.—Regardless of their location, the independent stores have many problems in common. They have small buying power, which means that they must sometimes pay more for their merchandise than the large stores. On the other hand, they do not incur the expenses of operating wholesale departments.

The independent retailer ordinarily has a location more convenient to his customers than his large competitors. The crossroads, village, small town, and neighborhood

city stores are closer to the consumers than are most other stores. The small down-town stores are usually located on the street levels where the merchandise can be easily reached by passers-by. Such stores may be on corners, near railway stations, in office buildings, or in other places where they are convenient to the consumers.

The independent merchant usually has a closer personal contact with his customers than do the large stores. The rural merchant knows his customers intimately and calls them by name. The neighborhood merchant in the city likewise knows many of his customers and is familiar with their wants.

The independent store is ordinarily too small to employ specialists or experts to handle its buying, window display, stock display, lighting, advertising, accounting, credit extension, collecting, and training of employees. The owner must ordinarily look after all of these matters, and frequently they are not as well done as in a large store that can employ a staff of specialists to look after different parts of the business. For example, the small store usually has a higher percentage of bad debt losses on credit sales than the large store that employs a credit manager.

The small store does not usually have as detailed a system of accounting and stockkeeping as the large store. This proves to be a handicap in analysing its operations and in selecting its purchases. On the other hand, it does not have the cost of keeping elaborate records, nor of employing a staff of high-priced specialists.

Rural and city markets.—The population and retail business of the country is distributed as shown in Table 15. The Census reported practically no shift in the proportion of stores and sales in cities of different sizes from 1929 to 1933.

TABLE 15.—BUSINESS OF RETAIL STORES BY LOCATION, 1933

Size of Town (Population)	*Per Cent of Total Population*	*Per Cent of Total Stores*	*Per Cent of Total Sales*
Over 500,000	17.0	19	26
100,000–500,000	12.6	14	20
10,000–100,000	18.0	21	24
2,500– 10,000	8.6	13	12
Under 2,500	43.8	33	18

It will be noted from the figures in the table that towns of over 2,500 population do a larger retail business in proportion to their population than smaller places. In one Census study it was shown that in 61 per cent of the counties the county seat towns did over one-half of the retail business. The importance of the towns in this group as trading centers is indicated by the fact that 80 per cent of the counties have no town as large as 10,000 population. Communities under 2,500 include the country's farms and do a relatively small retail business in proportion to population. This can be explained largely by two facts—the people in this area go to larger towns to do much of their buying, and many of the people living in this area are farmers who raise much of their food and fuel. In 1929 there were 694,536 retail stores in places of less than 10,000 population, with total sales of nearly 15 billion dollars. This number was 45 per cent of the total number of stores in the entire country, and these stores did 30 per cent of the total retail business.

Location.—The independent stores may be located at a country crossroad; in an agricultural, lumbering, or mining village; on the main street of a small town; in the shopping district of a city; in the residential neighborhood of a city; or in a suburban town.

Rural stores.—Rural stores consist of specialty, multiple-line, and general stores located in villages and

on country roads. Many rural stores handle only one line of goods, such as groceries, hardware, building materials, or clothing; many handle groceries and a stock of miscellaneous (variety) goods. Many handle two or more lines of goods, for example: hardware and groceries; clothing, dry goods, and hardware; groceries and shoes; building materials, coal, and farm equipment. Others are general stores in that they handle a great variety of goods. Many rural stores attempt to handle all kinds of goods to meet the daily needs of their customers. A typical general store carries such goods as groceries, shoes, work clothing, underwear, hats, hosiery, hardware, stoves, seeds, tools, and some of the articles of farm and household equipment.

The Census reported some 100,000 general and multiple-line stores in 1929, located in towns of less than 10,000 population. These stores had sales of about 2 billion dollars, which was 4 per cent of the total sales of all retail stores. Other types of stores that are especially important in rural districts are those handling feed, farm supplies, farm implements, hardware, lumber, and gasoline.

In addition to selling goods, many rural stores are important in assembling such farm products as eggs, poultry, cream, and cotton. Many rural stores do from one-fourth to one-half of their total business in assembling farm products which are shipped to other markets.

The rural store of today has to meet conditions quite different from those prevailing when the country was being settled. The United States was settled under a geography determined by horse, water, and rail transportation. County seats were located every 20 or 30 miles so that a man could visit the courthouse and return home the same day by horse. The county seats usually de-

veloped into trading centers. Between the county seats villages were established every four to eight miles, serving as assembling points for farm products and as supply depots at which the farmers could buy their convenience goods and farm supplies. Some of these grew into trading centers.

Courtesy The Progressive Grocer.

Fig. 11.—Store front of a modern general store. Note the open windows (no backs), the interior of the store being visible from the sidewalk.

For about two decades after the railroads were built, the farmers bought their convenience goods and some of their shopping goods at the village stores. Other shopping goods were bought on periodic visits to the county seats and on occasional visits to larger cities. Then came the mail-order house with its greater variety of goods and, in many instances, lower prices. The mail-order houses took much business away from the rural stores, and forced them to reduce their prices and carry wider assortments of goods to hold their trade. After two decades of competition between the rural store and the mail-order house, the automobile came into general use and increased the number of competitors.

The use of automobiles and the building of surfaced roads have enabled the farmers to visit the larger towns more frequently. The stores in these towns have larger stocks. Many cash-carry chain stores with low prices are found in these towns, and many of the independent stores advertise low-priced specials which appeal to the farmers. In some parts of the country there has been an increase in farm tenancy, while some parts have had a decline in rural population; these changes have caused a decline in the demand for many kinds of goods.

Advantages of rural stores.—The rural stores have several advantages. They are closer to their customers than any of their competitors. It takes more gasoline for their customers to visit the trading center stores. They have low operating expenses. The cost of living, the wage scale, and the cost of rent are low in the rural districts. Total expenses are often from 13 to 18 per cent of sales.[1] The rural stores, likewise, usually have little or no cost for delivering goods to the buyers. The rural dealer has a personal acquaintanceship with his customers, and he often extends credit to them. He generally claims to have lower selling prices than the stores in the larger towns because of his lower operating expenses.

Disadvantages of the rural stores.—The greatest disadvantage of the rural store is its limited variety of goods. Travel by automobiles, fashion magazines, moving pictures, the radio, and advertisements in the newspapers enable the rural population to obtain the latest style news. There is less difference in the fashions of clothing, household furnishings, and mechanical appli-

[1] It should be remembered that rural stores sell largely convenience goods, farm equipment, and feed, which involve lower expenses than does the sale of shopping goods.

ances between the city and country population than ever before. Many rural buyers want the popular styles, and if the rural stores do not have these goods, the automobile enables them to go to the larger towns for them. The rural dealer can partially overcome this handicap by buying small quantities of each article and re-ordering frequently, and by ordering from catalogs when customers want articles that are not in stock.

The larger towns have many attractions, such as amusements, legal and medical services, banking facilities, barber shops and beauty parlors, schools, hospitals, and repair shops for different types of goods. When people come to a town primarily for such services, they often buy goods.

The rural dealer often lacks a newspaper that is a satisfactory advertising medium. To advertise in the county seat papers often involves a waste of circulation and unnecessary expense. However, if no satisfactory local paper is available, the merchant can advertise by direct mail or by outdoor signs. A store paper (house organ) carrying news of the neighborhood and the goods offered for sale can be used effectively. Many rural stores, however, fail to advertise consistently.

Much business is lost by the rural dealers because of indifference, dirty stores, poorly displayed goods, too liberal extension of credit, failure to collect accounts, and poor advertising. These are results of the dealer's inefficiency. Perhaps more sales are lost for these reasons than from inherent handicaps in the business.

Shopping and convenience goods.—That farmers usually go farther to purchase shopping goods than convenience goods is illustrated by a study made in Illinois in 1935. Shopping goods, it will be recalled, are goods of relatively large value to the purchase of which the

consumers attach considerable importance, while convenience goods are usually smaller staple articles which are bought frequently.

TABLE 16.—AVERAGE NUMBER OF MILES TRAVELED BY FARMERS TO PURCHASE DIFFERENT TYPES OF GOODS
(Illinois, 1935)

Shopping Goods: *Commodity*	*No. Miles*	Convenience and Bulk Goods: *Commodity*	*No. Miles*
Women's dresses & coats	15	Drugs & toilet articles	5
Furniture	12	Fresh meat	5
Women's shoes	10	Groceries	5
House furnishings	9	Hardware	5
Women's other clothing	9	Gasoline and oil	4
Dry goods	8	Feed (largely from local elevators)	4
Men's shoes	8	Lumber & building materials	3
Men's furnishings	7		
Men's suits & overcoats	6		
Men's work clothing	6		

There is a marked distinction between such shopping goods as women's clothing and furniture, on one side, and such convenience goods as groceries and feed, on the other. On the other hand, men's furnishings and work clothing are close to the borderline between shopping and convenience goods.[2]

Conclusions on rural stores.—The automobile and the surfaced road increase the opportunity of the rural dealer, for it makes it possible for him to draw trade from a wider radius.[3] Many wide-awake dealers have taken advantage of better transportation facilities and low operating expenses and increased sales by properly assorted and displayed stocks of goods, plus good salesmanship and advertising. Some have sales of more than a hundred thousand dollars a year and a few have been re-

[2] Distances are greater in more sparsely populated areas.

[3] Some rural stores draw trade from neighboring cities by their lower prices on manufactured goods and by the sale of fresh country produce.

ported with annual sales of more than a million dollars. Such large rural stores are, however, the exception. Generally speaking, the business of rural stores has been declining. Trade is being concentrated in larger towns, especially the county seats.

Trading center stores.—Trading centers are towns that draw trade from surrounding territories and are

Courtesy The Farmer.

Fig. 12.—Retail stores in a trading center.

large enough to enable their merchants to handle fairly complete lines of shopping goods. A trading center may vary in size all the way from one or two thousand people (perhaps less in some of the more sparsely populated districts) up to a city of 100,000 or more population.

Trading center stores are able to carry more complete stocks of goods than the rural stores. The larger stocks of goods and the services and amusements available draw people to the trading centers. The stores advertise in

the local papers, which often cover their entire trade territory, and many of the stores use "specials" or "leaders" that they advertise at low prices. The trading center merchant has an excellent opportunity to make acquaintances with his customers and to study their needs. Trading center stores draw trade away from the rural stores but lose trade to the stores in the larger cities.

The trading center merchant has to pay higher wages and higher rent than the rural merchant, and he is located at a greater distance from his rural customers. These factors give the rural merchant the advantage in many sales. After all is said, it is more convenient to buy near home. If the farmer sells his grain, livestock, milk, potatoes, or cotton at the nearby village, the trip to the trading center is an extra trip. Most trading centers are handicapped by limited parking space, especially on Saturday evenings.

Down-town city stores.—Independent down-town stores are located in the high rent districts. As the amount paid for rent usually increases faster than the volume of sales, these stores have a higher percentage expense for rent than stores located in the smaller towns and cities. Very commonly such stores are located on the street level and do not use other floors. This means that they must pay first floor rent for all of their space. The large store, on the other hand, often uses several floors for selling and therefore utilizes some lower priced space. Some small stores are located on second floors or in basements, but in such cases they may have to do a large amount of advertising to secure customers.

It will be noted from the figures in Table 17 that retail salaries increased much faster than the sales made by each employee. From the small villages to Chicago

TABLE 17.—SALARIES AND SALES IN RETAIL STORES LOCATED IN TOWNS OF DIFFERENT SIZES
(Illinois, 1929)

Size of Town (Population)	*Average Salary Per Full-Time Employee*	*Average Sales Per Full-Time Employee*	*Average Sales Per Store*
Under 1,000 . . .	$1,116	$8,074	$15,007
1,000– 3,000 . . .	1,168	8,735	21,717
3,000– 5,000 . . .	1,247	9,431	27,647
5,000– 10,000 . . .	1,335	9,579	31,912
10,000– 30,000 .	1,309	9,224	36,583
30,000–100,000 (non-suburban)	1,292	9,028	43,370
30,000–100,000 (suburban).	1,587	10,068	40,786
Chicago (3,376,438).	1,552	9,598	48,823

the average salary increased 39 per cent, while the average sales produced by each employee increased only 19 per cent. Between towns of 5,000 and Chicago, salaries increased 20 per cent, while sales per person increased only 2 per cent.

Degree of specialization.—The large number of people in down-town districts furnishes enough buyers for different products to make possible a high degree of specialization. We find stores handling only one kind of goods, such as candy, jewelry, men's hats, luggage, pets, oriental goods, periodicals, gift goods, books, tobacco, rugs, shoes, women's hats, sporting goods, office supplies, and toys. Such stores may also handle only one grade of such goods as popular priced candy or expensive hats.

A high degree of specialization enables such stores to carry wider or more complete assortments of goods than stores carrying more kinds of merchandise. The shoe store catering to only one class of trade may thus carry shoes in a variety of materials and styles to fit all shapes and sizes of feet. It thus attracts customers who want distinctive styles or who have trouble in buying comfort-

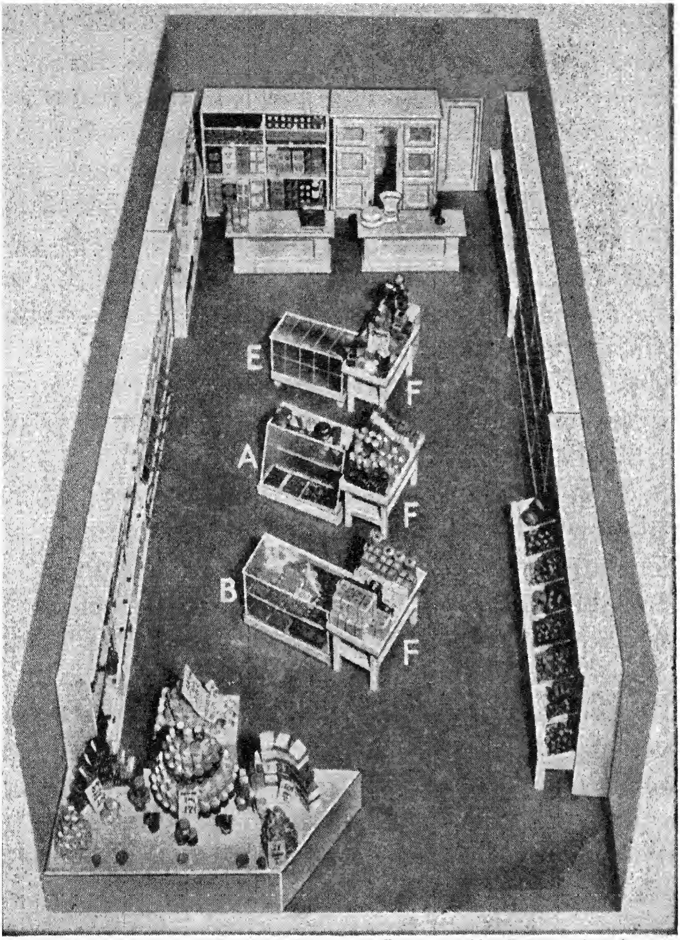
able shoes in less specialized stores. A large assortment of goods attracts customers who feel that they can find exactly what they want, can make selections from large stocks, or can obtain distinctive goods.

Courtesy The Progressive Grocer.

Fig. 13.—Interior of a modern general store. Note the low fixtures, the absence of counters, and the display of goods in such fashion that they may be easily seen and inspected by the customers.

All down-town stores do not, however, specialize within a narrow field, nor do they all carry complete stocks. Some, like the drug stores, attempt to handle almost any type of small goods which sell rapidly. Others carry only the fast-selling items and try to make a profit by a large volume of sales and a rapid rate of stock turnover.

Competitors.—The main competitors of the small down-town stores are the large department and specialty stores located in the shopping districts and the smaller



Courtesy The Progressive Grocer.

Fig. 14.—Diagram of the interior of a small modern grocery store. Note the open displays and the absence of counters. The scales and cash register are placed in the rear to draw customers to the back of the store so that they will have the opportunity to see and buy goods from the open displays. The width of the building allows only one display window, which is of the open type. Tables F are for special displays—goods on special sale or goods which the grocer is making a special effort to move.

stores located in the suburbs and residential neighborhoods.

Advantages.—An advantage of the small down-town stores in contrast with large down-town stores is their greater convenience. The small stores are usually located on the street level and the goods are much more accessible than those in the large stores. This is especially important with convenience goods such as newspapers, magazines, cigarettes, candy, and soda fountain drinks and lunches. The ease of entrance is said to be of greater importance with men than with women.

Some of the small stores maintain an exclusive atmosphere which is impossible for the large store patronized by the masses. The small store also often has a more friendly atmosphere than the large store. Many people like to be served by the owner of a business, who is generally on the floor acting as a salesman, at least part of the time. As the other salesmen work under his immediate supervision, the small store often has a better quality of salesmanship than the larger stores.

Disadvantages.—The small store cannot employ expert specialists as can its large competitors. It cannot advertise so advantageously, for it cannot afford the large space in the city papers and it cannot afford an expert advertising manager. It does not have the reputation that is often obtained by a large store. Nor is it able to offer the consumer all kinds of goods as does the department store. It is handicapped in rendering credit service, for it cannot afford a complete credit department. It may not be able to buy as cheaply as the large store, and it does not usually have specialized buyers to scour the world for new and distinctive goods.

Neighborhood and suburban stores.—Neighborhood and suburban stores in many ways occupy positions mid-

way between the small town stores and city stores in the shopping districts. They have higher wage scales than the small town stores. They have a closer personal acquaintanceship with their customers than the down-town stores but not as close a touch as the rural stores. They are located closer to their customers than the down-town stores, but they do not carry the same wide variety of goods. They lack many attractions found in the shopping districts. The large number of stores, the variety of goods, the brilliant show windows, the theaters, the restaurants, and the crowds are attractive to many and draw people to down-town stores when they could obtain the goods at the same or lower prices at stores near their homes. The neighborhood and suburban stores thus have the same complaint against the down-town stores as do the rural stores against the stores located in the trading centers.

Automobile trade.—One distinct advantage of the neighborhood stores is the greater ease of parking in nearby streets. Traffic congestion and limited parking space keep many people away from down-town stores and help the suburban stores. Many of the large downtown stores have opened branch stores in the suburbs, perhaps realizing that it is difficult to draw any more trade into the congested down-town districts.

Special types of stores have also grown up to sell to the motorists. Among these are roadside stands, streetside markets, drive-in markets, groups of stores built around a parking space into which customers may drive and park, and large food markets located outside business districts. The thousands of roadside stands along our automobile highways sell gasoline, oil, tires, meals, sandwiches, candy, drinks, groceries, novelties, drug sundries, and antiques.

Vending machines.—There are thousands of machines throughout the country selling various kinds of articles—from chewing gum, candy bars, and cigarettes to gasoline, spark plugs, and handkerchiefs. When properly placed, such machines may be a convenience to the consumers and a source of profit to their operators.

Self-service stores.—Many stores handling staple merchandise place the goods on open shelves and tables and allow the customers to select their own goods. This method eliminates salesmen and saves their salaries. The self-service method is used by both independent and chain stores. This method is popular with many people who like to select their own goods, entirely free from any pressure from salesmen.

The principal advantage of the self-service method is that it saves sales force expense, which often amounts to from 5 to 8 per cent of sales. In the place of salesmen, however, stockmen, checkers, and cashiers are required. The number of persons required is, however, much less, so that a net saving is realized.

The self-service method also enables the dealer to increase the volume of business done in a given building. This results in reducing the percentage cost of rent. In the sale of foods it is estimated that successful service stores have expenses of 16 to 20 per cent, cash-carry stores of 12 to 17 per cent, and cash-carry self-service stores of 8 to 14 per cent. The expenses of chains may be slightly less in some instances.

Self-service stores have several limitations. In the first place, they are adapted only to the sale of more or less staple merchandise, and usually to packaged merchandise. They are not adapted to the sale of fresh meats or to the sale of wearing apparel where the customer needs the advice and assistance of the salesman.

The self-service method involves no saving to the small store. It usually requires two people to operate a self-service store. The small neighborhood store operating with one or two people would not reduce it labor expenses by changing to the self-service method, unless such a change increased its sales. Some self-service stores have relatively large losses from theft, and some employ watchers to guard against thievery.

Chapter 9

Review Questions

1. What is meant by an independent store?

2. What are the more important problems of the small store?

3. Is the trade of rural stores increasing or decreasing? Why?

4. What are the competive advantages of the rural store?

5. What are the competitive disadvantages of the rural store?

6. What can you say of the opportunities of the rural merchant?

7. What is meant by a trading center?

8. What attracts customers to a trading center?

9. What are the advantages of trading center stores contrasted with rural stores?

10. What are the advantages of trading center stores as contrasted with stores in large cities?

11. What are the disadvantages of trading center stores contrasted with rural stores? With stores in large cities?

12. What types of goods are handled by down-town independent stores?

13. Who are the chief competitors of the small down-town stores?

14. What are the advantages of the small down-town stores as contrasted with the neighborhood stores? With the large down-town stores?

15. What are the disadvantages of the small down-town stores as contrasted with the neighborhood stores? With the small town stores? With the large down-town stores?

16. What are the advantages of neighborhood stores?

17. What are the disadvantages of neighborhood stores?

18. What effect is the automobile having on neighborhood and suburban stores?

19. What can you say of roadside and streetside selling?

20. What are self-service stores? Do consumers like them?

21. What are the advantages and limitations of self-service stores?

Thought Problems

1. What do you think of the future of retailing in the small villages of the country?

2. Some individual stores handle only one kind of goods, for example, one brand of candy. Other so-called "specialty" stores, like the drug store and the hardware store, handle a great variety of goods. The present tendency is said to be toward handling more and more different articles. The arguments are that a greater variety of goods helps to serve the consumers and that additional lines can be handled without proportionately increasing expenses for rent, wages, and light. On the other hand, it is argued that carrying a wide variety of goods means that stocks are limited and incomplete; that many colors, sizes, or styles are not stocked; that many goods become soiled and obsolete before they are sold; and that the store tends to become a "junk shop."

Evaluate these arguments. How can a merchant determine whether he should add additional lines to his stock or cut out some of his present lines and specialize on a smaller number of lines?

3. It has been said that the volume of retail hardware business has been declining. One explanation is that the hardware merchants have interpreted the term "hardware" too narrowly—that they have not added new lines to take the places of goods (harness, buggies, and other horse goods, for example) that have gone out of use or have declined in importance. Comment. What lines can the hardware dealers add to their stocks to increase their volume of sales?

4. How do the small stores hold so much of the trade as they do when many of them are inefficiently managed?

5. Zoning ordinances limit the areas in which stores can be located. How will zoning affect the number of retail stores? Will zoning help or harm the small individual stores?

6. From the consumers' standpoint, should the small neighborhood stores be prohibited?

7. What do you think of mechanical selling by vending machines?

8. It is said that stores in many trading centers have broadened their lines to such an extent that few of them carry fully assorted stocks. There is considerable overlapping of stocks between stores. For example, several stores in a town may carry shoes of the same sizes and at the same prices, whereas no store has complete stocks of wide and narrow sizes nor of high and low priced shoes. Sporting goods may be carried by the hardware stores, department stores, drug stores, and book stores, but no store in town may have a complete line. Such a condition does not properly serve the consumers and is said to drive trade to other towns.

To remedy such a situation it is suggested that the merchants in the town get together and agree on the lines which each will carry. For example, one shoe store will carry narrow lasts in both popular and high prices, and the other stores will agree not to handle the very narrow lasts. Another store may agree to handle the very wide lasts, another arch support shoes, and so on. All would handle the popular sizes and styles in the popular price lines. This can be done for all lines of goods, so that buyers will find that they can get practically anything they want in the town. The merchants

will secure a reputation of having complete stocks and the town will draw more trade from surrounding territories and will hold more of its own trade at home.

Criticize this suggestion. Suggest ways of getting the merchants to agree to such a proposal.

Chapter 10

Department Stores and Mail-Order Houses

Department Stores

Definition.—A department store is a retail store which has a departmental organization and which handles a variety of goods including women's wearing apparel or dry goods. A departmental organization means that the different kinds of goods are separated in location and management and that records are kept showing the sales, purchases, expenses, and profits of each class of goods (or department). Most department stores are located in the shopping sections of cities and are patronized largely by women.

The department store is usually integrated and performs the retail and many of the wholesale functions. Buying is particularly important among the wholesale functions, and the stores send their buyers to the large markets regularly. The larger stores maintain permanent buying offices in New York and in other important markets such as Paris. Their buyers visit Europe, the Near East, and the Orient. The department stores are constantly on the lookout for new goods and bargains, and often buy job and odd lots at reduced prices. The larger stores have stylists who study fashion trends; and some of them originate their own designs and arrange with manufacturers to produce the goods.

The importance of the buying function increases with the size of the store. A recent study showed that de-

Courtesy Mandel Bros.

Fig. 15.—A large department store. Such buildings contain sales rooms, offices, and usually storage space for small goods. Bulky goods, like furniture, are often stored outside the shopping districts, and goods for delivery may be taken outside for sorting. See Fig. 17 on page 168.

partment stores with sales of $1,000,000 to $2,000,000 had buying expenses of 3 per cent, while those with sales of over $10,000,000 had buying expenses of 4.5 per cent. The larger department store largely eliminates the wholesale selling expense, buying only fill-in orders from the wholesalers. Smaller department stores buy a larger part of their goods from the wholesalers. Department stores usually have stock rooms in their buildings and often have separate warehouses located outside the retail districts. Many goods are delivered by the manufacturers as they are needed, so that large stocks do not have to be carried.

Many large down-town specialty stores selling clothing, furniture, and household furnishings have a departmental organization. Such stores will be included in the following discussion.

Importance.—The Distribution Census of 1933 reports 4,221 department stores with sales of over $100,000, in 1929, and 3,544 such stores in 1933. These stores had sales of $4,350,098,000 in 1929 and $2,544,960,000 in 1933. They did 8.9 per cent of the business done by all retail stores in 1929 and 10.2 per cent of the total in 1933. Department stores make up less than one-third of one per cent of all retail stores in the country, yet they do approximately 10 per cent of the total business done by retail stores. The department stores sell principally shopping goods. They are particularly important in the sale of women's clothing, household furnishings, and furniture. The Sample Census showed that they sold more than one-half of all the household furnishings, and between one-third and one-half of all the toilet articles and women's clothing (excluding shoes) sold in the cities studied. They are also relatively important in the sale of children's clothing, men's furnishings, au-

tomobile tires and accessories, and household, hardware, and garden supplies. They are relatively unimportant in the sale of groceries, meats, drugs, tobacco, and ice cream. In many of such convenience lines they do less than five per cent of the total business.

Organization.—A department store usually has four major divisions—merchandise; finance or control; sales promotion or publicity; and store management.

The merchandise division buys and sells the goods. It is divided into departments handling different kinds of goods. A large store will have from 50 to 200 merchandise departments in the charge of buyers, working under the supervision of merchandise managers. A smaller store will have fewer departments. In some stores the buying and selling functions are separated, so that the buyers buy the goods and sales managers are responsible for their sale. Up to the present, however, the buyers in most stores are responsible for both the purchase and the sale of the goods in their departments.

The finance, or control, division is usually under a controller who has charge of the accounting, credit, statistical, and finance departments.

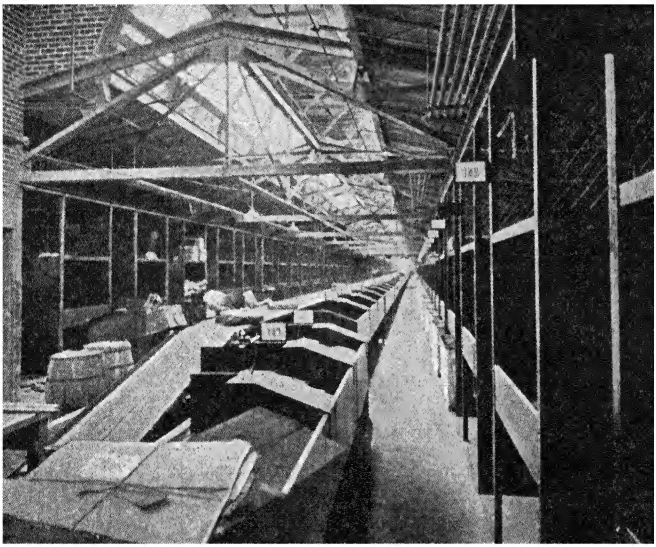
The sales promotion, or publicity, manager has charge of the store's advertising and window displays and is responsible for planning special sales or "promotions."

The store manager, or superintendent, is in charge of the store building and the delivery of goods. He must heat, clean, guard, light, and care for the building. He is responsible for the personnel department, which hires and trains most of the employees.

The department store has central departments which handle the advertising, credit, collections, delivery, and accounting, and which hire and train employees. These functions are in the hands of specialists who may become

expert in the management of their departments. This expert supervision may enable the department store to perform these operations better than the small store which cannot employ experts.

A woman's store.—The department store is patronized largely by women. Women are said to spend more time



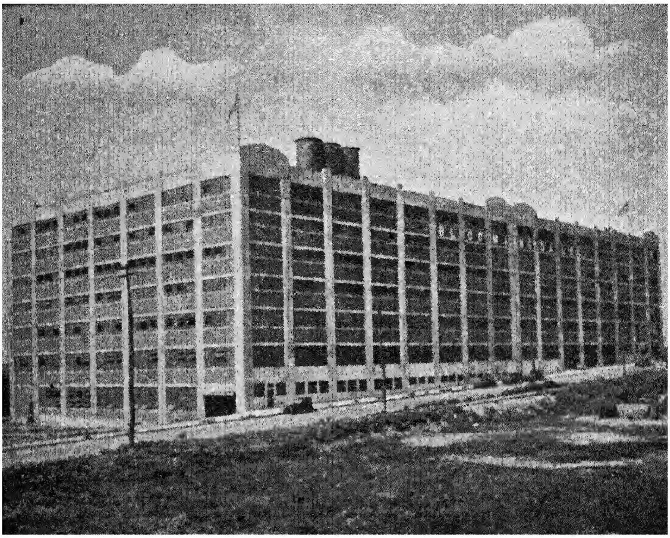
Courtesy Abbott, Merkt & Co.

Fig. 16.—Sorting of packages for delivery by a city department store.

in shopping than men. They look at more goods and compare quality, styles, and prices more carefully. It has been said that the typical woman visits three stores before buying shopping merchandise. Women trust their judgment much more than men, which means that brands are of less importance in selling to women than to men.

Men as a rule dislike shopping in department stores

unless they have separate men's departments that can be easily reached from the street. Men usually prefer specialty stores which are conveniently located and in which they can make their purchases quickly. Department stores often have large sales in men's furnishings,



Courtesy Abbott, Merkt & Co.

Fig. 17.—Warehouse and remote delivery depot of a city department store. Goods are stored here until they are needed on the sales floors. Packages are brought here from the store and are sorted for delivery to the customers.

but the sales are usually made to women. The department stores that have made large sales to men usually entirely separate the men's departments from their other departments.

Service.—Most department stores emphasize their services. They extend credit liberally, give free and frequent deliveries of goods, send out goods on approval, fill telephone orders, and allow the customers to return

goods on almost any excuse. Many department stores have free rest and writing rooms, children's play rooms or nurseries, and auditoriums or lecture rooms. Many of them operate service departments, such as restaurants, beauty parlors, and barber shops, at a loss to attract customers to their stores.

Most department stores have adopted the motto "The customer is always right." This means that customers are allowed to return or exchange goods whenever they feel justified in doing so. Margins, expenses, and profits of department stores are shown in Tables 18, 19, and 20.

TABLE 18.—MARGINS, EXPENSES, AND PROFITS OF DEPARTMENT STORES ACCORDING TO SIZE, 1934†

Size of Stores (Annual Sales Volume)	*Margin % of Sales**	*Expense % of Sales*	PROFIT OR GAIN *% of Sales*	PROFIT OR GAIN *% of Investment*	*Number of Stores Reporting*
Under $150,000..	33.5	31.2	2.3	4.5	75
$150,000– 300,000.	34.5	32.2	2.3	4.5	74
300,000– 500,000	36.3	33.9	2.4	5.5	47
500,000– 750,000	37.2	34.0	3.2	6.6	40
750,000– 1,000,000	37.0	35.0	2.0	3.0**	26
1,000,000– 2,000,000	37.8	35.2	2.6	4.0	66
2,000,000– 4,000,000.	38.6	36.2	2.4	4.6	55
4,000,000–10,000,000	39.2	37.1	2.1	4.8	51
10,000,000–20,000,000	40.1	37.2	2.9	5.2	17
20,000,000 and over..	40.2	37.2	3.0	...	7

†Figures from Harvard Bureau of Business Research *Bulletin No. 96*.
*Including other income.
**Incomplete.

Competitive advantages of the department store: *Buying power.*—The department store is usually a large store which buys in large quantities. This frequently enables it to secure lower prices than the small specialty stores. There is an advertising value in having goods sold in the large department stores, for which reason manufacturers are often willing to give price concessions to induce the larger stores to handle their goods.

Convenience of a single store.—The ability to make all purchases in one store and on one line of credit is an advantage to the customers.

Advertising.—The department store can advertise advantageously. It usually draws trade from the entire

TABLE 19.—OPERATING STATEMENT FOR 66 DEPARTMENT STORES WITH SALES OF $1,000,000–$2,000,000 IN 1934

		Per Cent of Sales
Net sales		100.0
Cost of merchandise		65.6
Gross margin (including "other income")		37.8*
Expenses:		
Pay roll	17.5	
Real estate (rent, taxes, interest, insurance, etc., on buildings)	4.5	
Advertising	3.6	
Taxes (other than real estate)	0.4	
Interest " " " "	2.3	
Insurance " " " "	0.4	
Depreciation " " "	0.9	
Supplies	1.6	
Bad debts	0.4	
Travel and communication	1.0	
Repairs	0.4	
Other	2.2	
Total		35.2
Net gain (profit)		2.6
Net gain on investment	4.0	

*Includes "other income."

TABLE 20.—MARGINS, EXPENSES, AND PROFITS OF DEPARTMENT STORES, 1930–34
(74 Stores with Sales over $2,000,000 in 1930)†

PERCENTAGES OF SALES

Year	*Margin**	*Expense*	*Profit or Gain*
1930	37.2	34.2	3.0
1931	37.4	36.2	1.2
1932	37.6	39.8	–2.2 (loss)
1933	40.1	38.2	1.9
1934	39.7	36.5	3.2

†Figures from Harvard Bureau of Business Research *Bulletin No. 96.*
*Includes "other income."

circulation area of the city papers and hence pays for very little waste circulation. When a customer is drawn to a department store by the advertisement of one article, she is very apt to purchase other articles. The department store is large enough to employ specialists to plan and write its advertisements.

Location.—The department store is located in the shopping section. This means that it is well located to secure the shopping trade, but also that it is in the high-rent district. It can partly offset the higher cost of this location by using several floors for sales purposes.

Cut-price leaders.—It is doubtful if the average prices of the department stores are below those of many competing stores. Department stores, however, make very effective use of cut-price leaders. These leaders cause many people to feel that they can purchase goods more cheaply at department stores than at the small specialty stores.

Competitive disadvantages of the department store.—The department store has certain serious disadvantages or limitations. It usually has high operating expenses owing to the cost of management, the cost of rendering liberal service, its location in the shopping district, and the fact that it performs many of the wholesale functions. Expenses are usually above 30 per cent and in the larger stores often above 35 per cent. The high expenses, however, may be partly offset by the saving of a part of the wholesaler's margin. Figures given in Chapter 21 show that the average sales for employees in department stores are relatively low—$8,406 per full-time employee in 1929. This poor showing appears to be due to the large number of people in supervisory positions, to the concentration of sales during a short

daily period, and to the many services performed for their customers.

The department store usually has an excellent location for the shopping trade, but this very fact means that its location is poor for the sale of convenience goods. Another disadvantage is that the large store lacks personal touch and acquaintanceship with its customers.

Problems of the department store: *Management.*—The large department store has many employees, and their rate of turnover is often high. This gives them a serious problem in hiring and training employees. It is the author's observation that department stores often have poorer salesmanship than many of the smaller stores. They have difficulty in securing a high grade of workers. The employees must be trained by other employees, and there are so many to train that they are often placed on the sales floors with very brief instructions. Sometimes they are taught only how to make out the necessary records for cash and credit sales before being allowed to sell. In such cases poor salesmanship is almost sure to result.

A good deal has been heard in recent years about the difficulty of securing efficient managers. As a rule, the managers of the major departments receive very nice incomes; in the larger stores figures of from $5,000 to $25,000 are frequently mentioned, and stories are heard of a few much higher incomes. Many of the stores are devoting much more attention than formerly to securing and training men and women for managerial positions. Many stores definitely try to obtain university graduates, who are then given special training with the expectation that some will develop into efficient managers.

Success of department stores in the past has depended upon the skill of their buyers in buying and selling goods

at a profit. Fashion has become so important that many argue that the buying and selling functions should be separated so that the buyers could devote all of their time to the purchase of merchandise. It is argued that better results would be obtained on the sales floors if they were in the charge of sales managers instead of the buyers, who are away much of the time. The buyers, however, usually oppose this change, for they do not like to give up their authority, and in most stores they are still responsible for the sale of their goods.

Abuse of service.—Many customers abuse the services offered by department stores, particularly in the return of goods. The stores are glad to accept returned goods when they have made mistakes and when the goods are defective, but many buyers abuse this privilege. Some return goods for no reason except that they have changed their minds. Some goods are returned after they have been out of the store for considerable periods, or even after they have been used. In many stores from 8 to 10 per cent of all goods are returned, and in the larger stores returns of over 10 per cent are not unusual. Many stores have felt it necessary to conduct special campaigns to induce their customers to return fewer goods.

Expense.—The expenses of many department stores have mounted so high that it has been difficult for them to make profits. Executives have tried hard to reduce expenses but often with little success. In the larger cities, the stores do the bulk of their business in 4 to 5 hours daily; and on days when the weather is bad few shoppers come down town, but the store's expenses go on just the same. Certain days of the week and certain periods of the year are also dull. The costs of supervision and of rendering services are high. Many stores

have been unable to reduce expenses and have succeeded in maintaining profits only by increasing their gross margins, which means that they either buy their goods more cheaply or sell them at higher prices.

Mail-Order Houses

Types of mail-order sellers.—There are several types of mail-order sellers—the manufacturer selling to the dealer or the industrial consumer, the manufacturer selling to the ultimate consumer, the wholesaler selling to the retailer, and the retailer selling to the consumer. We have in mind in this chapter the manufacturer or middleman selling to the ultimate consumer. There are both specialty and general mail-order sellers. The specialty house sells only one product or a few allied products, whereas the general line house offers a wide variety of merchandise. Sears, Roebuck & Co. and Montgomery Ward & Co. have been among the more widely known houses of the latter type. They now operate both over-the-counter and mail-order stores.

Some concerns sell exclusively by mail, while others sell both by personal salesmen and by mail. Some retail stores have mail-order departments. Most sellers receive some business by mail, but, to be considered as doing a mail-order business, a seller should actively solicit mail orders and should make a large part of his sales by mail.

There are two methods of selling by mail: first, direct-mail advertising, by which letters, circulars, catalogues, or other printed material is sent to prospective buyers by mail; second, by means of advertisements in periodicals. The mail-order seller may use either or both of these methods.

Growth of selling by mail.—The origin of mail-order houses dates back to the 1870's, but their largest growth came after 1890. Mail-order selling grew with the development of the railways and the mail service.

In order to build a permanent business, confidence based on honest dealings and satisfaction must be secured. Some mail-order sellers advertise: "Send no money," "Goods sent on ten days' free trial," or "Examine the goods before you pay." Many give a very strong guarantee and allow the customers to return goods for any reason and to receive a refund of their money plus transportation costs.

Goods sold.—The consumer who wants some article that is not in common use in his community may find it easier to order from the catalog than to hunt for the article locally. Mail-order sellers have often handled goods which the rural and small-town stores did not carry, such as new goods, late styles, novelties, specialties, fruit trees, shrubbery, pure-bred livestock, and new mechanical devices. The fact that mail-order houses found their largest market in the rural districts would indicate that the variety and type of goods offered was one of the main reasons for their growth.

Low prices.—Many mail-order sellers emphasize low prices. In many cases the mail-order houses have undersold the local stores, even when transportation charges were included. This they were able to do because they bought their goods in large quantities on a wholesale basis or manufactured them themselves.

The anger of the rural dealers was aroused by the fact that their customers were constantly telling them that their prices were higher than those of the mail-order houses. The local dealers were forced to reduce their prices. In some rural communities the mail-order

sellers were said to have obtained as much as 20 and even 40 per cent of the retail business. But, taking the country as a whole, we find that the local dealers succeeded in holding most of the trade. The largest effect of the mail-order catalogs was that they forced the local dealers to reduce their prices and to handle a greater variety of goods.

Volume of mail-order business.—The Census reported 311 retailers selling largely by mail in 1933, with sales of 244 millions of dollars; in 1929 there were 271 mail-order houses with sales of 515 million dollars. This was 1 per cent of the total retail sales in each year. The total volume of mail-order business, however, is larger than is indicated by these figures. A very large number of manufacturers, other producers, and retailers sell large quantities of goods by mail, but unless more than one-half of their sales are made by mail, they are not classed as mail-order houses by the Census. Ninety per cent of the business reported by the Census was done by stores handling a variety of merchandise—that is, by mail-order department stores.

Average operating expenses of these mail-order retailers were 23 per cent in 1929 and 28 per cent in 1933.

Advantages of selling by mail.—The principal advantages of buying by mail are the ability to secure goods unobtainable at many local stores; low prices; and the ease of ordering by mail. The principal advantages of selling by mail are the low cost of goods because of large-scale buying or manufacture; low operating expenses; and freedom from local depressions.

The large mail-order houses commonly buy direct from the manufacturers, thus securing low prices. They often take the entire output of factories or a very considerable portion of their outputs, and sometimes they secure fac-

tories and manufacture their own goods. The small specialty mail-order seller may have a relatively small volume of sales and yet secure quantity prices, for he sells only a few lines. On bulky products the storage function may be largely shifted to the manufacturers, orders being forwarded to the factories for shipment. The mail-order house has heavy advertising expenses, but its other expenses may be low. It has no personal salesmen, can locate its plant outside the high-rent retail sections or on upper floors, can often turn its stock rapidly, frequently extends little credit, and does not have to provide expensive fixtures, since the customers do not come to its store. The mail-order house often sells nationally. It is thus free from local depression that may be very serious to local retailers.

Success or failure in selling by mail depends largely upon the response of the consumers to the advertising. The mail-order seller spends money for advertising. If it draws well, his percentage of expense will be low. Successful sellers by mail are reported to have advertising expenses of from 5 to 10 per cent. Specialty sellers by mail with products carrying large margins may spend much more on advertising and still make a profit.

Suppose a concern sells an article for \$10 that carries a gross margin of 50%, or \$5. Suppose it costs 8¢ to prepare and mail a piece of advertising matter. The concern mails out 10,000 pieces at a cost of \$800. A 1½ per cent return (sales) will give 150 sales and a total gross margin of \$750; this margin is less than the advertising cost. Suppose that new advertising copy is prepared, or that a different mailing list is secured, and 10,000 more pieces are mailed. If this mailing secures a 2½ per cent return, 250 sales will be made on which the gross margin will be \$1,250. After paying the

advertising cost, \$450 remains to pay other expenses and for profit. Thus a 2½ per cent return may be profitable, while a 1½ per cent return is unprofitable. On such narrow differences does success or failure depend. If an exceptionally attractive article is offered, or if the advertising is exceptionally good, the returns may be so large that the business is highly profitable. On the other hand, a very large percentage of the attempts to sell by mail prove unprofitable.

Very commonly the first sale made by mail is made at a loss. Profits are made on repeat orders. Some people will order by mail and some will not. The mail-order seller's job is to find those who will buy by mail. When they are found and a mailing list is made up of satisfied customers, the percentages of return will be much higher than those obtained by sending advertisements to new prospects. Thus success in selling by mail may depend upon having many articles to sell or upon selling "repeat" articles which customers buy frequently. The furniture and farm supply houses have a variety of goods to offer their customers, while those selling wearing apparel have repeat goods.

Disadvantages of selling by mail.—The lack of personal salesmanship and personal contact with the customers is probably the greatest handicap in selling by mail. Ordering by mail is impersonal. The consumer often wants personal advice or assurance from the salesman. When the mail-order house has told its story in its advertising, it is through. It cannot answer questions, meet objections, or make an appeal for business on the basis of friendship. At times the mail-order house has had very excellent advertising, whereas many of the local stores have had very poor personal salesmanship. This gave the mail-order house some advantage, but

personal salesmanship is inherently stronger than advertising.

The buyer cannot examine the goods when ordering by mail, and the best that advertising can do is partially to overcome this handicap. In standard merchandise that is familiar to the buyer, this may make little difference. With shopping goods, however, the customer likes to see the goods before she buys because color, design, fit, and quality of material are important. Even the best of colored pictures is a poor substitute for actual examination of the goods.

Since there is a delay in the delivery of goods bought by mail, the buyer must anticipate her wants. This can often be done, and the regular mail-order buyer gets in the habit of doing it. Wants, however, cannot always be anticipated. The mail-order house cannot be used for fill-in goods or for emergency purchases. If exchanges are necessary, additional delay is involved and this takes time not allowed for when the goods were ordered. Adjustments likewise cause delay and often annoyance.

The mail-order seller is handicapped in rendering certain types of service. He cannot demonstrate his goods or tell the buyers how to use them except by printed instructions. He cannot make repairs unless the goods are returned or unless he sends a man to the customer, which is expensive. He can carry repair parts, but it may take the customer longer to order a part by mail than to secure it from the local store.

The mail-order seller does not ordinarily sell highly perishable goods, such as fresh meats. He is handicapped to some extent in selling very bulky goods upon which the transportation costs are high. Some mail-order houses have largely overcome this handicap by

establishing a number of regional warehouses to which bulky goods are shipped in carlots.

Decline in mail-order business.—According to common opinion, the mail-order business has declined relatively, if not absolutely, during the past few years. In many communities, the farmers report that they buy less by mail than they did before the automobile came into general use. Many rural dealers report that they feel mail-order competition less than formerly. Several of the larger and better known mail-order houses have entered the chain-store business, indicating that they see little room for growth in the mail-order field.

Three reasons are advanced to explain this decline: first, the automobile, which permits the rural population more easily and more frequently to visit the larger towns where the stores carry larger assortments of goods; second, the increase in the amount of direct-mail advertising matter received by most buyers, which may cause each piece to receive less attention; and third, the fact that the local merchants and chain stores have been able to meet, or more nearly to meet, the prices of the mail-order houses.

Chapter 10

Review Questions

1. What is a department store?

2. How do department stores perform the wholesale functions?

3. What can you say of the importance of the department stores?

4. Where are most department stores located?

5. In the sale of what lines of goods are the department stores especially important?

6. How do you explain the fact that less than one-third of one per cent of the country's stores do 10 per cent of the total business?

7. How are department stores organized? What are the main divisions? What are the duties of each division?

8. What advantage does the department store secure from its centralized departments operated to serve the entire store?

9. Contrast the ways in which men and women shop.

10. Why do the department stores give such liberal service?

11. What are the main competitive advantages of the department store? Which of these apply in competition with the chain store?

12. How does the department store secure an advantage in advertising?

13. How do department stores use cut-price leaders?

14. What are the competitive disadvantages of the department store?

15. What are some of the difficult problems facing the department stores?

16. What classes of concerns sell by mail?

17. In what two ways do mail-order sellers advertise for business?

18. What advantages enabled mail-order sellers to take business away from the local stores?

19. How do mail-order sellers secure the confidence of the consumers?

20. What are the principal advantages in selling by mail?

21. What determines the success of a mail-order seller?

22. What are the principal disadvantages of selling by mail?

23. Why has mail-order selling declined?

Thought Problems

1. Does the fact that the department store performs the wholesale functions reduce the total marketing cost?

2. How can a store secure a "feminine atmosphere"? A "masculine atmosphere"? How should a store be arranged to appeal to women?

3. Why do department stores have such a low quality of salesmanship? Do you believe that they could secure better salesmanship? If so, how? If not, why?

4. The services offered by the department stores are abused by some of their customers. This is especially true of the return privilege. How may the stores reduce the percentage of goods returned without losing goodwill?

5. Some have said that the department stores have erred in placing so much emphasis on service. Comment. A few have been successfully operated on a cash basis. Do you believe that more department stores should go on a cash basis? Could a department store operate on a carry basis and make separate charges for all deliveries? Are the special services, such as writing rooms, lectures on household management, and nurseries, profitable to the stores?

6. It has been said that one trouble with the department store is that it has not attracted enough of the higher type of employees. It has been said that many ambitious young people have thought of work in department stores as "counter jumping" with no opportunities for really worth-while positions. Department stores have many low-paid employees, but, on the other hand, they have many highly paid employees. One department store with 5,000 employees had, in 1930, 600 people receiving from $3,000 to $50,000 a year; 300 receiving from $1,500 to $3,000; and 4,100 receiving under $1,500 (very few under $1,000).

Many department stores are said to be definitely trying to secure more high school and university graduates. Do you believe that the securing of more educated people will improve the quality of salesmanship and management and lead to more efficient operation of stores?

7. How may a mail-order house secure mailing lists?

Chapter 11

Chain Stores

Definition.—A chain-store system consists of a group of retail stores under one ownership and management, with some uniformity in the methods of operating the various stores. The Census considers four stores as the minimum number which constitutes a chain. Two and three stores under a common ownership are referred to as two-store and three-store multiples, or two-store and three-store independents.[1]

We ordinarily think of the chain store as being an integrated concern performing both the wholesale and the retail functions, although some of the smaller chains are not large enough to do this.[2] The chain has a central buying office which purchases goods for its various stores. The larger chains operate one or more warehouses from which goods are supplied to the stores in the system.

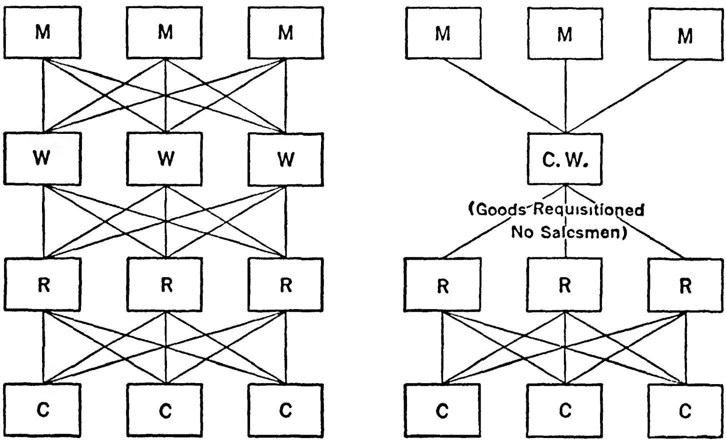
We also speak of chains of wholesalers, warehouses, banks, and theaters, although these are not usually called "chain stores."

Types.—Chain stores may be classified as to ownership, kind of goods handled, location, and method of operation. As for ownership, there are retail, wholesale, manufacturer's, and public utility chains. The retail chain is owned by an organization primarily interested

[1] A distinction is made between a chain-store system and a branch-store system. A branch system consists of one large or dominant store and one or more small or subsidiary stores which get much of their merchandise from the parent store.

[2] It is argued by some that these small chains are not *real* chains.

in retailing. A wholesale chain is owned by a wholesaler. Many wholesalers have entered the chain-store business because the number of the independent stores from which they drew their customers was reduced by the growth of chain stores. If the wholesaler ceases selling



Trade Channel
Manufacturer—Wholesaler—Retailer

Trade Channel
Through Chain Store

KEY: M—*Manufacturer;* W—*Wholesaler;* R—*Retailer;* C—*Consumer;* C.W.—*Chain Store Warehouse*

Fig. 18.—Chart showing trade channels through manufacturer-wholesaler-retailer and through chain store. Note the reduction in sales effort and expense in the chain store.

to independents and operates his wholesale house merely as a supply department for the retail stores, he would be considered as the operator of a retail chain. A manufacturer's chain is owned and operated by a manufacturer for the selling of a part of the goods produced. A public utility chain is operated by an electric or gas company, usually to sell merchandise which will increase the sale of its electricity or gas.

Chain stores are often classified according to the type

of goods handled, as groceries, drugs, furniture, radios, and so forth.

With respect to location, chains are classified as local, sectional, and national. A local chain is one operating in one city and its neighborhood. A sectional chain is one operating in one section of the country, as in the New England states or on the Pacific Coast. A national chain is one operating in several sections of the country. The local chains do about one-third and the sectional and national chains about two-thirds of the chain-store business.

Chain-store systems operate in different ways. Some operate on the cash-carry basis; some give credit and delivery service; some use personal salesmen, while some operate on the self-service basis; and some operate leased departments in other stores.

Importance.—In the United States the chains have had most of their growth since 1900, and particularly since 1920. They did 21.5 per cent of the total business done by all retail stores in 1929 and 25.2 per cent of the total in 1933. (See Table 21 on page 187.) This was a rapid gain for a four-year period and may have been due in part to the depression which caused people to economize. The chains operate less than 10 per cent of the total number of stores and yet do one-fourth of the business. This is explained by the fact that most of the very small stores are operated by independents. A chain cannot afford to operate a very small store because it must pay regular wages to the employees and because it also has the expense of supervision. In 1933, the average sales of all independent stores was $13,200 compared with an average of $44,600 for all chain stores.

There were 5,546 chains operating 141,603 stores in the United States in 1933. Chains operating grocery

and meat, grocery, variety, department stores, and filling stations did the largest volume of business. Variety chains (5¢ to $1 stores) did 91 per cent of the business of all variety stores. It appears that the buying advantages of the chains make it difficult for independent variety stores to compete with them. Many department, hardware, stationery, confectionery, and other types of stores, however, sell the same type of goods as those sold by the variety chains. Chains selling shoes, groceries, and groceries and meats do more than 40 per cent of the total business done by all such retail stores. We must not assume, however, that the chains sell over 40 per cent of all the shoes, for many shoes are sold by independent clothing and department stores. The chains do more than one-third of the business done by filling stations and tobacco stores. These figures are given in Table 21.

The chains have had their largest growth in staple merchandise that is adapted to large-scale buying and routine selling, such as groceries, gasoline, and variety goods. There has also been a considerable growth in the sale of wearing apparel sold by department, clothing, and shoe chains. These chains have the advantage of being able to keep stylists in the central markets at all times to watch fashion trends. Their stockkeeping methods enable them to limit losses on garments because of fashion changes—a risk which is often serious with independent stores. The chains have had relatively little growth in the sale of hardware, farm equipment, jewelry, automobiles, and furniture.

Organization.—The chain is usually organized with a central office from which goods are purchased and the various stores supervised. This central office has buyers for the various lines of goods handled; a superintendent

TABLE 21.—CHAIN STORE BUSINESS, 1933

Type	Number of Stores	Sales (in millions)	Per Cent of Sales of all Retail Stores		Full-Time Employees		Expense % of Sales*
			1929	1933	Number	Av. Earnings	
Grocery	24,740	$ 812	45.7	45.0	53,930	$1,191	17.8
Grocery & meat	24,924	1,397	32.2	43.7	100,787	1,195	18.9
Restaurants	3,377	197	13.6	14.9	59,457	758	52.5
Drug	3,760	267	18.5	25.1	31,564	1,024	28.0
Hardware	536	20	†	4.1	2,399	1,216	29.7
Jewelry	191	10	6.4	5.9	1,454	1,340	51.9
Automobile	409	113	†	5.3	10,306	1,338	25.6
Filling station	36,026	546	33.8	35.5	74,226	1,130	32.4
Tobacco	1,713	64	25.1	33.9	4,990	920	21.4
Department	2,057	606	16.7	23.9	59,517	995	27.4
Variety	5,400	618	89.2	91.2	89,609	766	29.0
Men's clothing	1,693	108	21.2	22.0	9,543	1,394	35.4
Family clothing	550	38	27.3	20.3	4,667	1,197	39.0
Women's clothing	1,726	134	22.7	23.4	14,309	988	30.6
Shoe	4,442	196	38.0	46.2	15,664	1,255	31.8
Furniture	570	78	14.2	14.2	12,308	1,357	41.9
Household appliance	1,355	43	†	21.5	13,226	900	49.1
Radio	207	18	19.1	15.6	2,239	1,278	36.4
All	141,603**	$6,313††	20.0	25.2	685,207	$1,079	27.1

*Excluding central office expenses which averaged 4.3 per cent (Vol. I, p. 29, Census Report) and proprietors' salaries for unincorporated chains.

†Data not given.

**Table does not show figures for all types of chains. It does not include ownership chains of department stores nor chains of leased departments.

††Excludes sales of $215,583,000 made by central offices of chains.

to operate its stores; and managers in charge of advertising, real estate, accounting, warehouses, and any factories operated. Large chains have supervisors working under the superintendent to oversee the store managers.

Expenses.—The chains buy many of their goods direct from manufacturers. Some have factories and manufacture a part of their goods.[3] The expenses of the chains cover both retail and wholesale expenses and should be compared with the combined expenses of independent wholesalers and retailers.[4] The 1933 Census reported average expenses of 27.1 for the retail stores of chains, and 4.3 per cent for their central offices, or combined expenses of 31.4 per cent. This is an average for all types of chain stores. A comparison of the expenses of wholesalers and retailers with those of chains for eight trades is shown in Table 22. We must remember that many of the chains operate on a cash-carry basis while most of the independents operate on a service basis. A Census survey showed that the independents made 38 per cent of their total sales on credit, while the chains made only 19 per cent of their total sales on credit.

It will be seen from the figures in Table 22 that the

[3] A study made by the Federal Trade Commission shows that the chains buy 70 per cent of their goods direct from manufacturers, 7 per cent from growers and growers' organizations, 7 per cent from brokers and commission merchants, and 8 per cent from wholesalers. They manufacture 7 per cent of their goods and obtain the other 1 per cent from various sources.

[4] This is not a perfect comparison since the independent retailers buy large quantities of goods direct from manufacturers and since the chains buy some goods from wholesalers. The smaller chains buy many goods from the wholesalers, and the larger chains patronize wholesalers for perishable products and "fill-in" orders. However, as the small independents buy a very large proportion of their goods from the wholesalers while the chains buy relatively small quantities from the wholesalers, this is the best way of making a comparison of expenses.

TABLE 22.—EXPENSES OF INDEPENDENT WHOLESALERS AND RETAILERS AND OF CHAIN STORES
(Per Cent of Sales)

Type of Store	*Combined Expenses of Wholesalers and Retailers (Census Figures for 1929)*	*Expenses of Chain Stores (Federal Trade Commission Figures for 8 Years between 1913 and 1930)*
Drug	43.4%	32.4%
Grocery	25.3	18.5
Meat	26.6	20.0
Furniture	46.6	37.2
Men's clothing	39.9	30.4
Men's furnishings	40.9	36.8
Shoe	38.0	29.7
Women's apparel	38.7	29.5

expenses of chains selling men's furnishings were 4.1 per cent lower than the expenses of the independents. The expenses of chains handling other types of apparel had expenses from 8 to 10 per cent below the independents. The food chains had an advantage in expenses of between 6 and 7 per cent.[5]

Differences in the operating expenses of chains and independents do not necessarily indicate the difference in their selling prices. The two profits of the wholesaler and retailer may be higher than the single profit of the chain. If so there will be a larger difference in their selling prices than is indicated by the expense figures.[6]

Advantages of chain stores.—The chains have the following advantages: lower cost of goods; lower prices; lower expenses because of integration, limited service, and efficiency; fresher goods; and relatively cheap and attractive advertising.

[5] Studies of the expenses of chains of various sizes show no particular advantage for either large or small chains.

[6] A study by the Harvard Bureau of Business Research covering grocery stores shows a difference in expense of 6.8 per cent in favor of the chain, but a difference in margin of 8.2 per cent in favor of the chain. *Bulletin No. 84.*

Cost of goods.—Much has been said about the ability of the chains to obtain their goods cheaper than their competitors. Lower buying prices may be secured as a result of quantity purchases, cash payments, advertising allowances, brokerage fees, and shrewd buying. The chains often buy in large quantities, and quantity prices and discounts often enable them to secure somewhat lower prices than their smaller competitors. Many chains are able to take all cash discounts offered on their purchases because they sell for cash or have ample capital or bank credit.

Chains very commonly obtain advertising allowances from the manufacturers. Such allowances are presumably given to cover the featuring of the goods in the chains' own advertisements, in window and store displays, and by their salespeople. In many instances, however, these advertising allowances appear to be merely price concessions. The chains are often able to secure such bargains as job lots and distress merchandise. The chain-store buyers may secure brokerage fees or commissions by buying direct from the manufacturers. In some cases brokerage organizations are set up to perform the broker's functions and secure his commissions. Chain buyers are often very close buyers, insisting on low prices, special allowances, or rebates. Many stories are heard of inside prices, special allowances, and checks for rebates mailed to the buyers months after purchases are made.

An investigation made by the Federal Trade Commission found that manufacturers' prices to grocery, drug, and tobacco chains, after considering all discounts and allowances, averaged some 2 or 3 per cent lower than the prices to the wholesalers. As a rule, the chains seemed to receive somewhat lower prices than the de-

partment stores, and the department stores somewhat lower prices than the wholesalers. Some of the advantage of the chains resulted from taking more quantity and cash discounts than other buyers took. Such discounts are often open to all those who buy in as large quantities and who pay with equal promptness. A part of the advantage of the chains, however, apparently came from special prices and allowances that were not open to their competitors. It is interesting to note that the smaller chains sometimes obtained larger concessions than the large chains.

Selling prices.—Chain prices on staple, advertised grocery products have been found to be from 10 to 14 per cent lower than the prices of independent stores in cities which the chains have recently entered. In cities where the independents have been faced with chain competition for several years, the chains have less advantage. Studies on staple groceries in such cities have shown chain prices to be from 2 to 6 per cent below those of independents, and much of this difference may be due to the differences in credit and delivery services furnished by the two types of stores. Under competitive conditions we expect that the prices of competitors will eventually be brought fairly close together on goods of the same quality. Sellers with high prices must increase their efficiency or drop out of the market.

The chains have less advantage in the sale of perishable foods, such as meats, fruits, vegetables, milk, eggs, and poultry. Such products are often bought locally and the chains frequently buy from the same sellers as do the independents. Very often cash-carry independents have lower prices on such products than the chains. When the prices of all foods are averaged together, the chains have less advantage than when only

staples are considered. In one study in 1931, weighted average prices of all types of food stuffs, except fresh meats, showed the chains to be 8.4 per cent under the independents. However, the cash-carry chains were only 4.2 per cent under the cash-carry independents. In a later study (1934) the advantage of the chains was even less—1 per cent in one city and 4 per cent in another.

A government survey showed chain drug stores to undersell the independents by 15 to 18 per cent in different cities. Most of the chain drug stores were located in down-town districts where the cut-price policy could be profitably used in increasing volume, while many of the independents were in neighborhood locations which are not adapted to the cut-price plan. Another study showed cash chains to be from 6 to 22 per cent under cash independents in various cities.

Chain and independent filling stations usually have the same prices on gasoline.

On wearing apparel there are few data on comparative prices. Comparisons are hard to make, owing to the difficulty of finding garments known to be of the same quality.

Expenses.—The chain usually has lower expenses in operating its wholesale houses than do the independent service wholesalers. The chain has no salesmen. Sales force expense is usually the highest single expense of the service wholesaler, frequently making up a fourth of the wholesaler's total expense. The chain uses supervisors to oversee its retail stores, but the expense of the supervisors is smaller than that of the wholesaler's salesmen. The managers of the various stores in a chain requisition the goods either from the chain warehouse or from the manufacturers with whom the central buying

office has made contracts. This saves the time of the retail store managers in interviewing salesmen. The chain-store warehouse has no credit and collection expense, as it sells only to its own stores. It reduces delivery expense by operating its trucks on definite schedules and by sending them away from the warehouse fully loaded. Each store receives goods only on certain days. The independent wholesaler must make more frequent and smaller deliveries to hold his customers. The chain warehouse handles fewer articles than the independent wholesaler, for it does not have to cater to the whims of independent stores. This enables it to turn its stock faster.

Chain-store warehouses can be located where transportation facilities are good and land is cheap, without regard to the convenience of its customers. Many chain warehouses are new and well designed for economical operation. Goods may be handled by gravity, by endless belts, on skids moved on lift trucks, or by endless cables.

Census data indicate that chain-store warehouses operate considerably cheaper than service wholesalers but only slightly cheaper than cash-carry wholesalers.

Some chains operate factories to produce a part of the goods sold in their stores. Manufacturing is most common among chains selling hats, shoes, candy, and clothing. Grocery chains often operate bakeries and roast coffee, make salad dressings, and pack tea and butter. The operation of factories involves difficult problems of management and prevents the chain from buying distress goods which at times can be bought at less than the cost of manufacturing them. The operation of factories, however, eliminates the manufacturer's selling expenses and often enables the chain to secure goods

cheaper than they can be bought from manufacturers.

Limited service.—Many chains operate on the cash-carry basis. This policy reduces operating expenses and makes possible lower prices, but it also limits sales, for some consumers desire credit and delivery services. Chains often carry limited stocks, which serves to reduce expenses for rent, stockkeeping, and spoiled goods. Again, however, this policy keeps some customers away. Some chains operate on a cash-carry self-service basis.

Efficiency.—The chain stores are usually large enough to take advantage of division of labor and to employ specialists to supervise various operations. The chain system can employ specialists to prepare its advertising, to plan window displays, to select locations for its stores, to plan the layout and arrangement of its stores, to develop accounting systems, to purchase its merchandise, and to hire and train its employees. If it operates on a service basis, it has specialists to pass upon credits, make collections, and supervise deliveries. Specialists may enable the chain store to perform these various operations more efficiently than they can be performed by the independent merchant, who must supervise all of these operations.

In many instances the chains employ better merchandising than the independents. Their stores are often better arranged and better lighted, and the merchandise is displayed more attractively. They often have better stockkeeping systems, which enables them to turn their goods faster and to give the public fresher goods.

Stock turnover.—A faster rate of stock turnover is obtained in two ways: first, by reducing the number of items carried; and second, by carrying the same number of items but a smaller quantity of each by receiving shipments more frequently. In the grocery

field many chain stores carry from 500 to 2000 items in stock, while the better independents frequently carry from 1500 to 4000. Chains carrying limited stocks realize that they lose some sales, but they choose to make their profits on the faster moving articles and allow the consumers who will not buy these to go elsewhere. In recent years, however, many chains have increased the number of articles carried in stock. Some chains have opened large down-town stores which handle staple and fancy groceries, meats, fruits, vegetables, and bakery goods, and operate soda fountains and lunch counters.

Good stockkeeping methods enable the chains to receive goods in smaller quantities and yet to keep their stocks fairly complete. Some surveys have shown that the chains were less frequently out of staple articles than were the independents. It has been estimated that the chain-store warehouse and retail store combined turn their stock on the average in less than one-half of the time required for a combined turnover by the wholesaler and independent retailer.

No inherent advantage from efficiency.—Better merchandising is not an inherent advantage of the chains. Independents can be just as efficient. The relative advantage of the chain often comes from the inertia of the independent merchant, who has often been too lazy or indifferent to study and apply the common principles of merchandising. The hired managers of the chain stores know that they will lose their jobs if they do not carry out their instructions, while the independent dealer has no such direct stimulus.

Advertising.—Since the chain store usually has several stores in one city or trading territory, it can use newspaper space economically and pays for very little waste circulation. The large national chains can also employ

magazine and radio advertising, for they have stores in many parts of the country.

Location.—The large chain store can employ experts to select the location for its various stores. The chain does not have to have a store in any particular place, and hence will not permit itself to be "squeezed" by a grasping landlord. The chain frequently studies the territory carefully and analyzes the value of different sites before it selects a location.

Cut-price leaders.—Many chains have made their appeal for business primarily on the basis of prices. Very frequently the chains have selected well-known articles for leaders and have quoted very low prices on these goods. The prices on these articles are counted upon to draw customers to the store who buy other merchandise which carries a larger profit. Many independent stores, especially large city stores and stores in coöperative chains, are now also using this method, so that the chains are losing some of their relative advantage.

Limitations and disadvantages of chains.—The chains that operate on a limited service basis lose a certain amount of trade from people who want to buy on credit, who want goods delivered, or who want goods not carried by the chains. The chain has difficulties and expenses in management. A large organization often has difficulty in keeping all its employees alert and in seeing that its policies are carried out by all its employees. The chains must employ supervisors to check the operations of its various managers. The use of supervisors, specialists, and experts adds to expense. The experts make many mistakes; many locations are selected that prove unprofitable; money is lost in experimenting with new policies; and some chains have expanded so fast that

they have had to employ poor managers and supervisors. Sound policy limits expansion to the rate at which men can be trained for managerial positions.

Hostile public opinion.—Much anti-chain propaganda has been distributed in recent years. The chains have been pictured as huge corporations controlled by Wall Street and taking money out of local communities. It is said that they do not fully support local enterprises in the communities where their stores are located; that they may become monopolies; and that they take away from young men the opportunities to establish their own businesses. Several states have enacted discriminatory chain-store taxes. Oil refiners have sold some of their filling stations in these states.

The chains answer the argument that they take money out of the community by pointing out that the independent merchant usually purchases his goods from wholesalers and manufacturers located in other towns. The only difference is that the chain store takes away its profit and distributes it to its stockholders who are often scattered throughout the country. The chain stores argue that they undersell the independents, so that the consumer makes a saving by buying at the chain; and that the money saved is spent in the community, so that actually more money is spent in the community because of the chains.

To illustrate, suppose that the independent grocer sells a staple article for one dollar and sends eighty cents of this out of the community to pay for the article. His operating expenses are 18% and his profit is 2%. Presumably, therefore, 20 per cent is spent in the community. The chain store sells this article for ninety-one cents and sends seventy-nine cents out of the community to pay for the article. Its operating expenses are 12%

and its profit is 2%. The operating expenses are spent in the community, but the profit goes to its stockholders who may live elsewhere. The chain argues that the nine-cent saving to the consumer is spent in the community, so that actually 21 cents is kept in the community when the article is bought at the chain store, whereas only 20 cents is kept in the community if the article is bought at the independent store. Most communities have stock and bond holders who receive money from other communities and thus compensate for the profits which local enterprises may send to outside owners.

In the past there probably was considerable truth in the statement that the chain stores did not support community enterprises. In recent years, however, most of the chains have joined the chambers of commerce and subscribed to the community chests or other local social agencies. Local people, however, often feel that the chains are not yet carrying their full responsibility for local enterprises.

The chains continue to grow, but as yet no single chain has become a monopoly, although, as a group, the chains are dominant in certain trades in certain territories. It is better to prevent monopolies than to try to regulate them or divide them up once they are formed. Although no chain yet has a monopoly, such a monopoly is possible at some future time. Perhaps this danger has been in the minds of some state legislators in voting for discriminatory chain-store taxes. Such taxes have been enacted in several states. They have forced a few stores out of business, and may be made to force more out in the future. Such taxes tend to take away some of the operating advantage of the chain and thus injure consumers who want to buy at low prices.

The chains have suffered somewhat from hostile

public opinion and from the feeling of some consumers that they should buy from home-owned stores. On the other hand, most consumers apparently believe that the chains undersell the independents. As long as this is true, the goodwill of the chains will outweigh their ill-will.

Conclusions on chains.—Many consumers have undoubtedly benefited by the lower prices of the chains. The price advantage of the chains has apparently decreased in recent years as independent stores have improved their methods of buying and increased their efficiency. It is possible for the independents to operate their stores just as efficiently as the chains. Some have felt that the chains have an inherent advantage in being able to buy their goods cheaper, and national legislation is urged to prevent such large price discriminations. The independents, however, are helping themselves by the formation of coöperative buying organizations which enable them to buy more nearly on the same basis as the chains. Such organizations are discussed in the next chapter.

Chapter 11

Review Questions

1. What is a chain store? A chain store system?

2. What are the types of chain stores?

3. What can you say of the growth and present importance of chain stores?

4. In what lines do the chains have the largest volume of business? Why?

5. In what lines are the chains relatively the most important? Relatively the least important?

6. How are chains organized?

7. How may the expenses of chains and independents be compared?

8. What are the chief advantages of chain stores?

9. What advantages do the chains secure from division of labor and the employment of experts?

10. What advantages do the chains secure from integration?

11. What is meant by good merchandising? Do the chains have better merchandising than the independents?

12. How do the chains reduce expenses? Do they have lower expenses than independent stores handling similar goods?

13. What advantage does the chain system have in advertising?

14. How do the large chains select locations for their stores?

15. What use do the chains make of cut-price leaders?

16. What are the chief disadvantages of the chains?

17. What difficulties of management do the chains encounter?

18. What arguments are made against the chains by propagandists?

19. What is meant by saying that the chains take money out of the community? Is this a true statement?

20. What can you say of the argument that the chains do not support community enterprises?

21. How do the buying prices of the chains compare with those of the wholesalers?

22. How do the average selling prices of the chains compare with those of the independents?

Thought Problems

1. It has been said that the chain is primarily adapted to an urban territory and that it loses many of its advantages

when it scatters its stores throughout rural territories. What is the basis for this statement? Is it true?

2. Is the use of cut-price leaders good merchandising? It is argued, for example, that every article should make a profit and that it is wrong to sell an article below cost (except, of course, old or soiled goods or goods in which the dealer is overstocked).

3. What do you think of the arguments that the chain store is an evil because it takes money out of the community?

4. What do you think of the argument that the chain stores are niggardly and avaricious because they do not support community enterprises?

5. Should the chains be curbed by legislation? Are they in the interests of the consumers? Or are they public menaces?

6. Is the chain an inherently better type of organization than the wholesaler-retailer type, or has it grown because it has been more efficiently operated?

CHAPTER 12

Meeting Chain Competition

What the independent merchant can do to meet chain competition.—The independent merchants have been much worried by the continued growth of the chain and of other large, integrated retail stores. The chains have three major advantages over the independents: (1) operating efficiency secured through a division of labor and the employment of specialists and merchandising experts; (2) advertising; and (3) large buying power, often combined with the operation of wholesale houses.

Individual action.—What can the independent do to overcome these disadvantages? He can improve his efficiency and become a better merchant. He can secure a good location for his store, select his goods carefully, display them well, arrange attractive store and window displays, practice good salesmanship, train his employees to give cheerful and courteous service, turn his stock rapidly, keep adequate records, sell for cash or extend credit carefully, collect his accounts promptly, and advertise enticingly. If the merchant can do all of these and besides put his own personality and individuality into his business, he will have no trouble competing with large retail organizations.

Can the independent retailer do all of these things? Some do, and grow and prosper right alongside of chain stores. Others are incapable of doing so. It is hard for

one man to be as efficient in all departments of his business as are the specialists employed by the chains. It takes a good man to meet chain-store competition individually.

Price leaders.—Many dealers have said that the large chain and department stores do not undersell them on all articles, but only on their specials or cut-price leaders. Many independent merchants have therefore adopted cut-price leaders to attract customers to their stores and to give the consumers the idea that their prices are as low as those of the chain stores. Some independent merchants seem to have used specials to very good advantage, even though they could not always buy them as cheaply as their large competitors. The danger is that they will lose more on the leaders than they will make on the increased sales of other goods. The independents are also often handicapped in advertising their cut-price leaders to the public.

A survey of grocery advertising in 111 New England newspapers found 28 products advertised by both the large chains and the independents. The independents had the same prices as the chains in 41 per cent of the advertisements, lower prices in 36 per cent of the advertisements, and higher prices in 23 per cent of the advertisements.[1]

Service.—Some independents have felt that the chains secure most of their advantage from operating on a cash-carry basis, and that the way to meet chain-store competition is to operate on the same basis. This has been successful in some instances, but in many cases it has not enabled them fully to meet chain-store prices. Other

[1] Independent stores both in and out of coöperative chains were included.

independents have felt that the best way to meet chain competition is to emphasize credit and delivery service and to give careful attention to the needs and wishes of their customers. No generalization can be made as to which is the better method. Local conditions, the type of customers, and the dealer's own ability are probably the determining factors.

Collective action.—Although the independents can do much individually to meet chain competition, they can do more coöperatively. They were very slow in learning how to coöperate, but much progress has been made in coöperative ventures during the past few years. Collective action may lead to coöperative advertising; to the employment of merchandising specialists or experts; to research; to coöperative buying; and to the operation of wholesale houses by the retailers.

Advertising.—A common form of coöperative advertising is that done by retail grocers in various localities. Such advertisements generally feature certain cut-price specials used to meet the prices of the chain stores. These leaders are often sold at or near cost and in many instances are supplied by the wholesalers at cost. The advertisement may feature two lists of articles: first, the leading specials (usually 4 to 8 articles) sold at cost; and second, articles which are good values, but which carry at least small margins.

Many of the retailers are unable to utilize newspaper advertising individually, owing to the small portion of the town from which they draw their trade. A number of stores located in different parts of the city may, however, be able to use newspaper space very advantageously. In many cases, the advertising retailers operate on a service basis and feature this service in their ad-

vertising. They may also point out that the stores are all "home owned" and ask for trade on this basis. A part of the cost of the advertising is often paid for by manufacturers whose products are featured.

In some cities, an organization may not have stores in all parts of the city, and so cannot economically utilize the daily papers. In such cases, they may use handbills, direct-mail matter, or window signs supplied by the association or wholesaler.

Supervision.—Many coöperative groups of retailers employ trained specialists to help the retailers improve their methods and to become better merchants. These specialists may prepare window displays, store layouts, accounting systems, or copy for advertisements. They may visit the stores and give advice to dealers. The weakness of such supervisors is that they can only give *advice,* whereas the supervisors in the chains give *instructions.* Many of the independent retailers do not follow the advice offered by the supervisors. On the other hand, the chain-store manager who does not follow instructions is likely to lose his job. In the wholesale type of coöperative chain, the salesmen for the wholesalers are often expected to act as supervisors. These men are primarily salesmen and often make poor supervisors.

Research.—Because many of the stores are too small to afford research departments and because much valuable information must be secured from a large number of stores, several groups of retailers carry on research work coöperatively. Coöperative research may follow style trends, may analyze past sales, may compile figures showing operating costs, may develop stock control methods, may develop methods of selecting or training

employees, or may compile other facts useful to the stores.[2]

Buying.—Perhaps buying is the most important coöperative activity among independent retailers at present. Many feel that the large buying power is the greatest advantage of the chain.

Types of organizations.—Some of the more important types of organizations are buying clubs, coöperative chains, and buying groups. Coöperative, or voluntary, chains may be organized by retailers or by wholesalers. The retail type of coöperative chain may buy goods jointly through some form of a buying club, may buy from a mutual wholesaler, or may own and operate its own wholesale house. The wholesale type is usually organized by a private wholesaler, or by a national organization which works through private wholesalers in various parts of the country.

The buying club.—For many years, groups of retailers have coöperated to secure quantity prices. The manufacturer may offer a quantity price on fifty cases. One dealer may be unable to use such a large quantity. He therefore calls other dealers in his town and arranges with them to pool their orders so that they can get the quantity price. A buying club, however, is more than this. It usually has a formal organization and pools orders for its members more or less regularly. The retailers in the club jointly, or through a buying committee, select the articles upon which lower prices can

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[2] Research is carried on by groups of both small and large stores. The Retail Research Association and the Cavendish Trading Corporation are examples of research organizations maintained by groups of large department stores, and the National Retail Hardware Association is an example of an organization with a research department maintained by a large number of small stores.

be obtained by buying in larger lots. They may secure quantity prices from wholesalers, or they may buy from manufacturers, farmers' coöperative associations, or brokers.

One member often places the order for the goods. He may keep the goods in his store until the members call for them or the members may call for them at the freight station. All the buying may be done by one member or may be done in rotation by the various members. When done by one member it may place a serious burden on him, for many of the retailers do not call for their goods promptly. In some cases they do not have the money, and either leave the goods until they get the cash or ask the buying member to trust them for a few days. The only way to be safe on pooled orders is to require the retail members to make cash deposits when the order is placed.

At times the buying club develops so that a part-time paid secretary is employed. In some instances the secretary may keep a limited quantity of goods on hand or even make deliveries to the stores of the members. In this case it has begun to operate a wholesale house. The buying club attempts to secure wholesale prices without incurring the expenses of operating a wholesale house. It is very difficult to do this except on a limited number of purchases. The successful buying club may therefore decide to secure and operate a wholesale house.

Retailer-owned wholesale house.—There has been a considerable growth of retailer-owned wholesale houses. There are a hundred or more in the grocery field, about a score in the drug trade, and some half dozen in the hardware field. In such houses the retailers own the stock and elect the managers. Such houses are usually

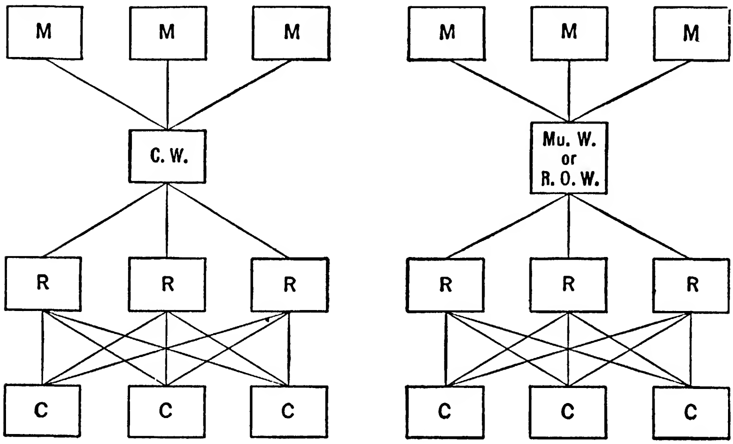
operated on an economical basis, employing few salesmen. Among grocery houses only one-fifth report the use of salesmen.

The retailers send in their orders by telephone or by mail. These wholesale houses usually carry more or less limited stocks of goods, sell for cash or offer short credit terms, and give a limited delivery service. In these ways they reduce their operating expenses very materially. A government study shows that the average retailer-owned wholesaler in the grocery trade operated on an expense of 4.1 per cent; this compares with expenses of 5.5 per cent for private cash-carry wholesalers and over 9 per cent for private wholesalers operating on a service basis. The private hardware wholesaler is said to have expenses of from 15 to 20 per cent, while the retailer-owned house operates on an expense of 8 to 10 per cent. In the drug trade the average expenses of the retailer-owned house are about 8 per cent, compared with about 16 per cent for private service wholesalers. A government study showed that in the grocery trade the average retail member purchased $6,191 worth of goods per year from his wholesale house; of this total 27 per cent was purchased on a credit basis and 25 per cent was delivered to him free.

It is evident from the above figures that the retailer-owned wholesale house can materially reduce the prices to its retail members. It, however, does not offer them as much service as the private service wholesaler. The retailers must send in their own orders, must pay for the goods more promptly, and often must haul them to their stores or pay for delivery. It is also at times impossible to secure all of the goods needed from such wholesale houses.

Very often coöperative chains are operated in con-

nection with the retailer-owned wholesale houses. The retailers may select price leaders, which are then advertised coöperatively; they may have uniform store fronts; and the organization may supply its members with



Chain Store Trade Channel

Near-Chain Trade Channel

KEY: M—*Manufacturer;* R—*Retailer;* Mu.W.—*Mutual Wholesaler;* R O.W.—*Retail-Owned Wholesale House;* C—*Consumer;* C.W.—*Chain Store Warehouse*

Fig. 19.—Chart illustrating how the coöperative chain and the mutual wholesaler attempt to secure the same advantage as is secured by the chain store in eliminating the wholesaler's salesmen and their expense. Note that wholesaler's salesmen are eliminated as is done by the chain store and that the wholesaler serves much the same purpose as the chain store warehouse.

merchandising helps, plans for store arrangements, window displays, and advertising copy.

Disadvantages of the retailer-owned wholesale house.—An important disadvantage of the retailer-owned wholesale house is that it is managed by hired employees, although the retailers devote a part of their time to its supervision. The retailers either must take this time

away from their retail stores or neglect the supervision of the wholesale house. This management difficulty appears to be a more or less inherent disadvantage of all coöperative ventures. It is also hard to keep up the interest and coöperation of the members, and energy must often be devoted to securing new members. Owing to their limited capital, some retailers find it hard to buy stock in the wholesale house.

Mutual wholesalers.—The operation of mutual wholesalers was described in Chapter 7. They operate much as do the retailer-owned wholesale houses, and in practice it is often difficult to tell whether a wholesale house is mutual or a retailer-owned wholesaler. The difference is that the majority of stock in a mutual house is owned privately and not by the retail members. The control is thus, strictly speaking, in the hands of a private organization.

Wholesaler-retailer coöperative chains.—The wholesaler-retailer coöperative chains, or as they are sometimes called, *vendor-tie-ups,* have been organized by private wholesalers. Such organizations have had their largest growth in the grocery trade. Most of these chains have been started since 1925.

The wholesalers usually maintain their outside salesmen, extend credit, and give free delivery to many of the retailers. It is apparent from this that they reduce operating expenses little, if any. Their services to their retailers often consist in providing price leaders at a cost low enough to allow the retailers to meet chain-store prices; coöperative advertising; advice given by their salesmen or by merchandising specialists; and the privilege of using their name. The coöperative advertising and price leaders are apparently the greatest advantages to the retailer. The coöperative chain

sponsored by the wholesaler lays much more emphasis on selling the idea than does the chain sponsored by the retailers. This perhaps explains its rapid growth in spite of the fact that it apparently does not supply the retailer with goods as cheaply as does the retailer-owned house. A government study covering approximately fifty of such group shows the average sales of the wholesalers to be approximately $2,000,000, of which about one-half was made to members of the coöperative chain and about one-half to other retailers. The average sales to retail members was $6,767, of which 80 per cent was sold on credit, 17 per cent was sold on a cash-carry basis, and 53 per cent was delivered free to the retailers.

Importance of coöperative chains in the grocery trade. —The Federal Trade Commission estimated that in 1929 there were 395 coöperative, or voluntary, chains in the grocery trade, with a membership of 53,400 independent retail grocers. There were, in comparison, 788 corporate chains with 53,500 stores. The average sales of the coöperative stores were $12,000, compared with $54,000 for chain stores. The average chain store was thus four and one-half times as large as the average store in a coöperative chain. The number of retailers who were members of coöperative chains has grown very fast in recent years. The American Institute of Food Distribution, Inc., reported nearly 800 coöperative chains in 1935 with 104,000 members; this was double the number of stores operated by grocery chains. It may be estimated that these coöperative chains do nearly two-thirds as much business as the corporate chains.[3] The coöperatives appear to be growing faster than the chains. It appears that there may soon be only three types of

[3] The American Institute of Food Distribution, Inc., however, claims that these coöperatives do as much business as the corporate chains.

independent grocery retailers: those in coöperative chains; those operating large markets who are large enough to buy on favorable terms; and those operating small neighborhood stores who exist because of their convenience to the people in their immediate neighborhoods or because of their low operating expenses and the small returns which they receive for their time.

Prices.—We may assume that the wholesale houses of the coöperatives buy as cheaply as other wholesalers. As indicated in the preceding chapter, this would mean slightly higher cost prices than those obtained by the chains. It would appear that the low expenses and margins of retailer-owned wholesale houses would enable the retail grocers to secure goods from them for 5 to 6 per cent less than from service wholesalers, and perhaps for 1 to 2 per cent less than from cash-carry and mutual wholesalers. Some of the wholesalers who sponsor chains have reduced their expenses sufficiently to enable them to give their retailers somewhat lower prices. Others who have retained their salesmen and offer the retailers merchandising assistance have not decreased their expenses, and so appear to be able to offer their retailers little price advantage.

Very few data are available showing comparative retail prices to consumers offered by coöperative chains and other types of retailers. The fact that the chains show relatively little price advantage over the independents in some of the larger cities [4] may be due to the fact that the retailers there have long had coöperative buying organizations. Four recent studies in the midwest have compared the prices of coöperative grocery chains with those of other independents. In two of these

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[4] For example, Philadelphia, New York, and San Francisco.

studies, the coöperatives were shown to have lower prices than other independents but not as low as those of the chains. In the other two studies, the coöperatives were shown to have somewhat higher prices than other independents. These higher prices were apparently caused by the fact that the coöperatives rendered more services than other independents.

Coöperative drug and hardware chains.—Estimates for 1929 showed over 30 coöperative drug chains, with some 12,000 members whose sales were less than 5 per cent of the total sales of all drug stores. There were a half dozen or more coöperative chains or retail-owned wholesale houses in the hardware trade, but the total sales of their members were less than 1 per cent of the total hardware sales in the country. Coöperative chains in these fields have devoted most of their attention to buying goods for the retailers at low prices and relatively less attention to giving advertising and other merchandising assistance to their members. The available figures indicate that the wholesale houses were able to save the retailers over 6 per cent in the drug field and 10 per cent in the hardware field. These were larger savings than were realized in the grocery field. In spite of these greater savings the coöperatives have grown relatively less than those in the grocery field. The explanation is that chain competition has been less severe in these fields, and that the retailers dislike to give up any of their freedom in operating their businesses. Much is heard of coöperation in these fields, and as chain competition becomes more severe, more coöperation among retailers may be expected. It would seem to be desirable for the independents to organize coöperative chains in advance of the growth of corporate chains and so protect their position. However, people don't seem to work

that way—they hesitate to make changes until competition forces them to.

Group buying.—A buying group is a group of stores or manufacturers which selects merchandise jointly and places the orders together. In the retail field, group buying is most commonly practiced by department, clothing, and furniture stores.

There are two advantages to group buying: better selection of merchandise through the combined judgment of a number of buyers, and quantity discounts or prices by placing large orders. The main limitations of group buying are the differences in the needs of different stores and the difficulty of getting the various buyers to work together. If the stores in a group cater to different classes of trade, it will be difficult to buy merchandise jointly. Members of a buying group are commonly located in different towns, and, with style merchandise, the stores in different towns may have different fashions at a given time. Fashions, however, are becoming more uniform through the country, and it has been demonstrated by the chain stores and by several buying groups that popular priced women's wear and men's apparel can be bought collectively. Group buying is said to be particularly important to the department stores located in the smaller cities and in the outlying shopping sections of the larger cities. These stores are often too small to secure the most favorable quantity prices and may not have expert buyers for all types of merchandise handled.

The personal factor oftens limits group buying: buyers may fear the loss of their prestige or of their positions and so oppose coöperative buying.

Selection of goods.—Some stores report that the joint selection of merchandise is the principal advantage of group buying. The judgment of several buyers is better

than that of an individual. Of course, if the buyers make their selections hastily, poor merchandise may be chosen. The buyers meet to inspect the samples and to select the best values offered. The reliability of the manufacturers and their ability to deliver the quantities wanted by the group must also be considered. It has been thought by some that the group tries merely to get the lowest price possible. Such a practice is bound sooner or later to lead to a cheapening of the merchandise, and to avoid this danger groups may start with a definite price and select the best merchandise that is offered at that price.

Lower prices.—The group may be able to secure lower prices. For example, a dress which has been retailing at $15.75 and which was purchased at $10.75 may, by the larger purchases, be bought for $10. This 75 cents may be kept to increase the retailers' profits, or it may be passed along to the consumers in lower prices. One large department store had been buying a certain type of screen in lots of 1,000 dozen and getting 10 and 5 per cent discounts off the manufacturer's price.[5] Other stores in the group were getting 10 and 2 per cent, and 7 and 5 per cent off. As a result of the group activity, better prices were obtained, particularly by the smaller stores in the group. Savings of from 5 to 12 per cent are mentioned as possible through group buying. A group of women's coat and suit manufacturers were found by the U. S. Department of Commerce to give average discounts of 4.4 per cent to buying groups.

When first organized, buying groups commonly went

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[5] Trade discounts are deducted in succession, so that each one applies to the net amount after the preceding one has been deducted. Thus if an article is priced at $10, with 20, 10, and 5 per cent off, the buyer pays $6.84 ($10 — 20% = $8; $8 — 10% = $7.20; $7.20 — 5% = $6.84).

to the manufacturers and asked for a special price on a certain quantity of goods. The order was placed on the basis of the quoted price. If all goods were for immediate delivery, the manufacturer might be rushed to make delivery and then find business very slack. When deliveries were made over a period of time, it often happened that the member stores did not buy as much as they had promised when the order was placed—a practice which was unfair to the manufacturers, who naturally felt they had been cheated. To avoid this difficulty another method was developed. The buying group selects what are called preferred resources of supply—manufacturers with whom the buyers are to place all possible business. The manufacturers agree to give a sliding scale of discounts based on the total quantity purchased by members of the group during a given period. For example, a manufacturer of men's clothing may agree to give the following discounts to members of a group on purchases made during a six months' period: 5 per cent on sales of $100,000; 7 per cent on sales of $200,000; and 10 per cent on sales of $300,000. The manufacturer is thus enabled to operate his plant more regularly. The stores obtain the merchandise as needed and still receive quantity discounts based on the total purchases of all stores in the group.

A considerable development in group buying has taken place, although the total quantity of goods in the apparel field bought in this way is estimated to be less than 10 per cent. Some groups report their greatest success in buying supplies (for example, wrapping paper, boxes, twine, excelsior, tires, and gasoline) and such staples as sheets, towels, and kitchen ware.

A recent report listed 17 important buying groups in the department store field with 500 stores as members.

This included some ownership groups or chains of department stores which do not have central management but which do buy some goods coöperatively as groups, and some small chains of department and apparel stores. The total sales of the stores in these groups were given as $1,700,000,000. If 10 per cent of their total purchases is made jointly, the total volume of joint purchases would be $170,000,000. There are also many smaller buying groups.

Other forms of collective action.—Retailers often coöperate in other ways. In several towns they have organized coöperative delivery systems. Under such a system one organization supplies the trucks and makes all deliveries for the retailer members.

In more than 1,000 cities and towns the retailers coöperate to gather credit information to be used in extending credit to the consumers. In a very large proportion of these cities, the retailer-owned credit bureaus operate collection agencies to make collections from slow accounts.

Chapter 12

Review Questions

1. What three major advantages do the chains have over the independents?

2. What can the independent merchant do individually to meet chain competition?

3. Can the independent merchant merchandise his store as efficiently as the chain?

4. What use can the small independent merchants make of price leaders?

5. What can the independents do collectively to meet chain competition?

6. What important types of organizations have been formed to help the independents?

7. How can the independent retailers advertise collectively?

8. Can the independents secure trained specialists to help with the supervision of their stores? If so, how? If not, why?

9. How may independents coöperate to carry on research?

10. How do retailers coöperate to buy merchandise?

11. What is a buying club? How does it operate?

12. What advantages may the retailers secure from a buying club?

13. What are the limitations on the activities of a buying club?

14. What is a retailer-owned wholesale house? How are such houses owned? How are they managed?

15. What services do retailer-owned wholesale houses usually perform? How do they limit expenses?

16. How do the expenses of retailer-owned wholesale houses compare with the expenses of private wholesalers handling similar goods?

17. What advantages does a retailer obtain from buying from a wholesale house in which he is part owner?

18. What are the disadvantages of buying from a retailer-owned wholesale house? Can the retailer secure all of his goods from such a house?

19. What is a mutual wholesaler? Compare and contrast the mutual wholesale house with the retailer-owned house.

20. What is meant by a wholesaler-sponsored coöperative chain?

21. How are such coöperative chains organized? What are their advantages to the wholesaler? To the retailers?

22. What are the relative advantages to the retailer of

belonging to a coöperative chain organized by retailers and of belonging to one sponsored by a wholesaler?

23. What is meant by group buying? Among what types of stores does it exist?

24. What are the advantages of group buying to the retailers?

25. What are the disadvantages or limitations of group buying?

26. In what other ways than those already discussed may the retailers coöperate to further their interests?

Thought Problems

1. Can an independent retailer in the grocery field meet chain-store competition acting individually? If so, how? If not, why? Would your answer be different for retailers in other trades?

2. Should the independent retailer trying to meet keen chain-store competition go on a cash-carry basis or emphasize credit and delivery service?

3. What use can the independents make of price leaders in meeting chain-store competition when acting alone? When acting together with coöperative advertising? How do the independents secure goods to be used as leaders? Can they meet chain-store prices on cut-price leaders? It is said that the public compares prices only on a few staple or standard articles, and that if the independents meet the chain prices on these, the public will think they are as cheap on other articles. Comment on this statement.

4. One difficulty with coöperative advertising is that the same articles do not appeal to the customers of all the stores. A low-quality article may not appeal to a retailer with a high-class trade, while a high-quality article may be unattractive to a dealer with a low-class trade. Comment. How should the articles to be advertised as leaders be selected? Is it necessary that all coöperating dealers have the advertised articles in stock? Is it necessary for all stores adver-

tising coöperatively to operate on the same basis—cash-carry or credit-delivery?

5. Do the coöperative, or voluntary, chains have all the advantages of ownership chains? Can you enumerate any places where they are superior to the chains? Any places where they are inferior? Will they enable the independent retailers to hold their own against the chains?

Chapter 13

Marketing Industrial Goods

Industrial goods.—Industrial goods are goods used in the production or distribution of other goods and services. They are sold principally to such business concerns as factories, railroads, mines, public utilities, and offices. They are bought for use in business and not for consumer-satisfaction. Many of the buyers are expert judges of the quality of the goods purchased. The demand for industrial goods varies much more than the demand for consumers' goods. Equipment is most often replaced when business is good and the manufacturers are prosperous. When sales are increasing, the manufacturers erect buildings and buy new equipment; when sales are declining, little money is spent for new buildings and equipment. In 1929 industrial sales totaled 41 billion dollars. Such sales declined greatly in the following three years. To illustrate the extent of the decline, the sales of wholesale establishments selling machinery and equipment declined from 3 billion dollars in 1929 to 1.3 billion dollars in 1933—a decline of 58.6 per cent.

Kinds of industrial goods.—There are many kinds of industrial goods—lathes, drills, looms, steam shovels, locomotives, ships, tractors, trucks, filing cabinets, time clocks, bookkeeping machines, dynamos, engines, turbines, oil, iron, steel, ores, wool, wheat, cotton, copper, tin, lead, hides, leather, and so on. Many farm products

are raw materials and hence industrial goods. For practical reasons, however, the marketing of farm products is considered separately.

In Chapter 4 industrial goods were divided into equipment, supplies, raw and partly finished goods, and fabricated parts.

Overlapping with consumers' goods.—Many products are both industrial and consumers' goods. Flour sold to a bakery is an industrial goods (raw material), while flour sold for domestic consumption is a consumer goods. Lubricating oil sold to factories is an example of industrial goods, while the same oil sold at retail for use in a pleasure car is a consumers' goods. The consensus of opinion is that when a seller's product is sold to both markets, two sales organizations should be maintained. The type of salesmen needed and the problems in the two markets are different.

Equipment.—There are many types of equipment. Some equipment is highly specialized and some is fairly well standardized. Some pieces, like rolling mills, locomotives, blast furnaces, and turbines, are very large; others, like hand tools, are small. Equipment may be roughly divided into two classes: large machines that are built to order for the buyers, and smaller devices that have a wide market and that are commonly built in quantities and carried in stock ready for delivery by the makers or dealers.

Equipment has a relatively long life and is often expensive; replacements come at infrequent intervals. The purchase of new equipment is a matter of great importance to the buyer, and new capital or long-time credit may have to be secured.

Obsolescence.—The value of equipment depends primarily upon its design and construction. Since new de-

vices are constantly being developed and old designs are constantly being improved, equipment is often made obsolete by new inventions. New designs reduce the amount of labor required, increase the speed of production, improve the quality of the goods produced, or save raw materials or fuel. Old equipment may be junked or sold to smaller plants long before it is worn out. It is wasteful and expensive to keep old machinery in use when newer machinery will reduce the cost of production.

The buyers.—Specialized products have a definite number of users. For example, looms are used only by textile mills, and dynamos are used only by concerns that generate electricity. Producers of such goods have a very definite market. Sales depend upon the replacement of worn out or obsolete machinery, the expansion of old plants, and the building of new plants. The sellers can keep in touch with the present users through salesmen, trade papers, and direct-mail advertising. Building contracts, trade gossip, and the incorporation of new companies may give news of new plants.

On the other hand, some equipment is used by a great variety of business concerns. Motor trucks are used by different types of factories, mine operators, contractors, public utilities, wholesalers, retailers, trucking companies, and farmers. Hand trucks are used by many types of factories, warehouses, wholesalers, railroads, and hotels. Time clocks may be used by any concern with a large number of employees. The maker of such products has many types of potential customers. He may advertise in different trade papers and in magazines with general circulations. His salesmen may have many prospects in a given territory.

Sales methods.—The manufacturer of equipment may sell his goods direct to the users or he may reach them through distributors who may be either merchants or agents.

Producers of specialized equipment that is built to the order of the buyers usually have their own salesmen and sell direct to the users. Agents may, however, be used as scouts to watch for the building of new plants or the re-equipment of old ones. When machines are built to the buyer's specifications, it would seem that the order would go to the lowest bidder. This is not always the case, however, for other factors may be considered. The reputation of the seller is important. The salesman may help to design the equipment or plant and so may secure an advantage. Friendship, promptness of delivery, repair service, guarantee, credit, and reciprocity are also important factors.

Small equipment that is used in many different trades may be sold direct to the users by the manufacturers or may be sold through middlemen. If the product is new, so that intensive sales effort is required, the manufacturer is likely to do much of the selling. When the product is well established, it may be sold by middlemen, but even then the manufacturer may have his own sales organizations in large markets. In such markets the manufacturer often carries stocks and makes immediate delivery to users. He often operates service stations to repair his products.

Types of middlemen.—There are two types of middlemen who handle equipment—agents and merchants. The manufacturer's agent makes sales on a commission basis. He turns his orders over to the manufacturer who fills them, and he carries little or no stock and extends no credit to the buyers. He generally handles only a few

products, which may be highly specialized or complicated. The figures in Table 23 show the business done by various types of middlemen handling five kinds of industrial goods (see pages 226–227).

There are several types of merchants handling equipment—mill supply houses, machinery dealers, hardware jobbers, electrical jobbers, plumbing jobbers, railway supply houses, automotive jobbers, steel jobbers, and others. These dealers carry goods in stock; have outside salesmen; and may extend credit, make collections, and issue catalogs. Some carry specialized equipment adapted only to certain industries, such as metal working machinery, wood working equipment, oil well supplies, railway supplies, or mine supplies. Others handle equipment that has a relatively wide use. The hardware jobber often carries mechanics' tools, equipment for small machine shops, and saw mill supplies. The electrical jobber carries many tools and small machines used by electrical manufacturers and contractors.

Supplies.—Operating supplies are goods that are used up in the operation of the plant but that do not become a part of the finished product. Goods with a short life, such as typewriter ribbons or electric light bulbs, may be classed as supplies, while goods with a relatively long life, such as printing presses, are classed as equipment.

Examples of operating supplies are coal, gasoline, fuel oil, lubricating oil, wrapping paper, twine, and printed forms. Some of these products are very important to the buyers and are purchased carefully by responsible executives. Others are of relatively little importance and are bought by an assistant or clerk in the purchasing department.

Coal.—Coal is perhaps the most important operating supply. It furnishes the power for most of our factories,

TABLE 23.—BUSINESS OF VARIOUS TYPES OF MIDDLEMEN HANDLING 5 TYPES OF INDUSTRIAL GOODS IN 1929 AND 1933

	1929		*1933*		
	Number of Establishments	*Net Sales (millions of dollars)*	*Number of Establishments*	*Net Sales (millions of dollars)*	*Per Cent Expense*
Machinery, equipment, and supplies (except electrical):					
Wholesale merchants	5,986	$1,135	5,791	$468	25.4%
Mfrs' sales branches with stock	....	....	2,988	438	25.8
" " " without "	....	....	1,057	250	8.8
" " " combined	3,352	1,425	4,045	688	19.6
Brokers	54	5	87	6	8.2
Commission merchants	66	18	20	6	3.3
Manufacturers' agents	1,624	270	1,300	63	15.0
Sales agents	543	126	29	4	19.0
Exporters	36	20	13	6	5.2
Importers	95	16	73	12	15.9
Export agents	17	12	32	8	10.3
Coal:					
Wholesale merchants	753	641	734	230	13.1
Mines' sales branches with stock	....	....	30	13	16.0
" " " without "	....	....	75	60	7.3
" " " combined	85	118	105	73	8.9
Brokers	86	34	64	16	6.6
Commission merchants	34	12	18	1	15.0
Manufacturers' agents	18	14	16	3	9.1
Sales agents	292	291	196	219	4.0
Metals (except scrap):					
Wholesale merchants	796	407	705	108	21.7

TABLE 23.—BUSINESS OF VARIOUS TYPES OF MIDDLEMEN HANDLING 5 TYPES OF INDUSTRIAL GOODS IN 1929 AND 1933 *(Continued)*

Mfrs' sales branches with stock	....	....	423	216	11.7
" " " without "	....	....	511	720	3.0
" " " combined	1,004	3,152	934	936	5.0
Brokers	18	18	30	9	4.3
Commission merchants	18	102	5	2	2.1
Manufacturers' agents	268	108	189	20	6.7
Sales agents	108	380	72	92	4.0
Exporters	5	5	6	26	4.1
Importers	36	252	33	24	3.0
Export agents	5	5	3	11	1.3
Electrical goods:					
Wholesale merchants	2,146	836	2,067	271	22.3
Mfrs' sales branches with stock	....	....	447	323	5.4
" " " without "	....	....	286	73	9.0
" " " combined	960	1,413	733	396	14.3
Commission merchants	11	3	24	2	11.0
Manufacturers' agents	558	124	298	20	10.0
Sales agents	127	27	21	5	14.4
Farm products—raw materials:					
Wholesale merchants	2,971	2,578	2,148	873	7.8
Brokers	799	1,220	517	291	1.6
Commission merchants	1,047	560	1,015	379	6.2
Manufacturers' agents	33	4	....	....	....
Sales agents	56	53	10	3	2.8
Exporters	232	876	156	261	6.2
Importers	157	229	127	104	4.2
Export agents	30	135	36	46	4.9
Import agents	9	8	19	22	7.4

....Data not available

electric and gas plants, mines, railroads, and other public utilities, and it heats most of our buildings. The main competitive products are natural gas, petroleum, and water power. During the past 15 years, the increased efficiency of power equipment and the development of oil and gas wells and water power have cut deeply into the market for coal. Twenty-five years ago, it required 6 pounds of coal to generate one kilowatt hour of electric current. Today it requires less than 2 pounds, and some of the best stations use only one pound.

We produce approximately 500,000,000 tons of bituminous coal a year. The two largest producing fields are: the Appalachian, extending from Pennsylvania to Alabama; and the Eastern Interior, in Illinois, Indiana, and western Kentucky. Coal is also mined in some ten states west of the Mississippi River. There are some 10,000 bituminous coal mines, with a capacity greatly in excess of present demand. Competition is keen and prices are often low, and as a result many of the mines operate only a part of the time.

Bituminous coal is used as follows: factories and mills, 32 per cent; railroads, 28 per cent; coke and gas plants, 15 per cent; heating homes and other buildings, 10 per cent; public utilities, 7 per cent; export, 4 per cent; coal mines, 2 per cent; and ships, 2 per cent. Coal is used as a raw material for the production of coke, gas, coal, tar, ammonia, and other products. It is predicted that we will extract our motor fuel from coal when our oil supplies are exhausted. This is already being done in Germany and England and may be done in this country within 20 years. If the demand for coal is to be increased, it appears that larger markets as a raw material will have to be found.

From 75,000,000 to 100,000,000 tons of anthracite coal

are produced annually in northeastern Pennsylvania. Most of it is consumed in the northeastern portion of the United States as domestic fuel.

Quality of coal.—There are many different kinds and qualities of coal. Perhaps the most common measure of its quality is the amount of heat which it contains. This is ordinarily expressed in b.t.u.'s—British thermal units (a unit is the amount of heat necessary to raise the temperature of one pound of water one degree Fahrenheit). The buyer may buy the coal that shows the lowest cost per b.t.u. delivered at his plant. There are, however, other factors to be considered. Transportation facilities from the mine are important to insure a steady supply. A high ash content is objectionable if the disposal of ashes is expensive. When traveling grates are used, the ash should have a high fusing point so that it will not form clinkers and clog the grates. A high volatile content is desired for making gas, but on the other hand, a coal with a high volatile content is bad for furnaces with small combustion chambers—as the volatile matter will be incompletely burned and result in smoke. Sulphur in the coal is objectionable for making coke. Sulphur and a high moisture content are objectionable when the coal is to be stored in the air.

From these statements it can be seen that the selection of the best coal for one's particular needs is not always easy. Large buyers may use the services of fuel engineers or chemists. Smaller users can employ the services of outside chemists or research laboratories, or get helpful advice from wholesalers.

Marketing coal.—Coal has a low value per ton. The cost of transporting it from the mine to the consumer is often more than the cost of the coal at the mouth of the mine. Some 20 per cent of the bituminous coal is con-

sumed by large railroads and other companies that own their own mines. The other 80 per cent is sold to industrial consumers and retail coal dealers by the mine operators' salesmen, wholesalers, and brokers. Coal is sold for immediate delivery and on contracts for future delivery. Mine operators are often willing to accept future contracts at prices little more than the cost of production, as such contracts assure more or less steady operation of their mines.

Sales methods.—The larger mines very often maintain their own salesmen to dispose of their output. An operator's sales organization may also sell coal produced by other mines.

Wholesalers.—Coal wholesalers buy coal to sell at a profit. They have title to the coal, but few of them, except those receiving it by water, handle it physically. It is usually delivered to the buyers by the railroads, and selling is the principal function performed. Wholesalers claim that they render valuable services to the buyers by giving them advice as to the kind of coal they should purchase. They are said to handle more than 20 per cent of the coal.

Sales agents.—Sales agents or brokers sell coal on a commission basis for the mines and do not have title to, nor handle, the coal. A sales agent commonly represents from 10 to 20 mines. The rate of commission varies widely but is said to average about 8 per cent. Studies made a few years ago showed that selling agents sold more than one-half of the anthracite coal and one-third of the bituminous coal. The data in Table 23, on pages 226 and 227, show that the various types of agents handled 40 per cent of all the coal handled by middlemen in 1933.

Raw and partly finished goods.—There are several types of raw materials: first, those that have come from the farm, mine, forest, or ocean and have not been changed in any way except that necessary to harvest, mine, or catch them. In this class come such products as cotton, wool, grain, livestock, tobacco, broom corn, ores, logs, nuts, raw furs, barks, shells, and roots. Second, there are products that have gone through one or more manufacturing processes but that must be further manufactured before they are ready for consumption. In this group are such products as iron, steel, tin, zinc, copper, hides, leather, thread, lumber, and crude chemicals.

Raw materials are often standardized and dealt in on exchanges or sold at auction. Often they have market prices that are widely published and their sale is often made on a basis of price, quality, and delivery. Prices fluctuate widely and considerable risk is involved in carrying them in stock. When a future market exists, the risk of changes in prices can be largely shifted by hedging. Raw materials have known prices and can be sold quickly, and they are therefore good security for loans. Raw materials are subject to less risk from obsolescence than most other types of goods; the style of the finished product may change, but it is likely to be made from the same raw materials.

Steel.—Steel will be used to illustrate the marketing of a partly manufactured good. Steel is a finished product to the steel mills but is considered a raw material by its buyers. Steel is made from iron, which in turn is made from iron ore, coke, and limestone. Most of the iron ore is mined near Lake Superior, and most of the steel mills are located in the Pittsburgh district in western Pennsylvania and eastern Ohio, and along the

shores of Lake Michigan and Lake Erie. Other important producing areas are near Birmingham, Alabama, and along the Atlantic seaboard in Maryland and Pennsylvania. Some steel mills produce crude products, such as billets, bars, and plates. Others turn out more nearly finished products, such as wire, nails, pipe, shafts, rails, tin plate, sheets, and structural steel shapes. Omitting scale and scrap, we find that about 96 per cent of the steel is rolled and about 4 per cent is made into castings. The largest consumers of rolled steel are automobile manufacturers, building contractors, railroads and other public utilities, manufacturers of machinery, farm implements, and cars, and operators of oil and gas wells and mines.

The steel mills have a productive capacity that is greatly in excess of the demands in normal times. Even in busy years like 1929 the mills seldom operate at full capacity. Because of the concentration of the business in the hands of a few large companies, however, this over-capacity does not cause the price fluctuation that exists in the bituminous coal industry.

Marketing methods.—Many buyers want steel of a definite chemical content, and much steel is made to meet their specifications. The mills, however, make standard grades of steel which are carried in stock for prompt delivery.

A large amount of steel is sold on future tonnage contracts, under which the buyers place orders for stated quantities to be delivered in future months. They give the mills specifications as to the sizes desired in time to allow the mills to roll the steel for delivery. These future contracts are really options, however, for the buyers often cancel them if prices drop.

Since steel is heavy, freight is an important factor in

its delivered cost to the buyer. Prices are usually quoted to apply at certain basing points. The buyers pay the freight from the basing points whether or not the sellers are located there.

Steel mills maintain sales organizations and sell most of their output direct to the consumers. Some steel, however, is sold by jobbers.

Steel jobbers.—Jobbers sell approximately 10 per cent of the steel. They carry goods in stock for immediate delivery and are patronized by small users who buy in less-than-carlots and by large users who want goods quickly.[1] They normally charge somewhat higher prices than the mills but must keep the supply and demand factors, as well as their costs, in mind when naming prices.

Fabricated parts.—Manufacturers of fabricated parts sell to other manufacturers. In order to build markets, they often advertise to the consumers of the finished products and try to secure consumer demand. It is doubtful if they are often successful in securing consumer insistence. They may, however, secure consumer acceptance. By this is meant that the consumer will buy the finished product more readily when he knows that it contains certain parts which he feels are of high quality. This causes the manufacturer of the finished product to favor the use of advertised parts. To illus-

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[1] One large jobber has 8 warehouses in different parts of the country and says that 85 per cent of his orders are filled within 24 hours. Another jobber has a warehouse with a capacity of 30,000 tons. He carries bars of various shapes and sizes from which manufacturers forge their products. He carries beams, girders, boiler tubes, sheets, cold finished steels, electric drills, electric hammers, and grinding machines. He has a fabricating department cutting bars and girders into the desired lengths and punching and riveting them as desired by the buyers. He has a force of salesmen to take orders over the telephone and another force to call upon the buyers.

trate, the washing machine salesman tells the prospective purchaser that his machine is equipped with a Westinghouse or General Electric motor and so builds a feeling of confidence in the quality of his product.

The manufacturer of parts has a more or less uncertain market. As the manufacturers of the finished products grow, they tend to produce the various parts entering into the make-up of their products. A manufacturer of parts may build a plant to produce goods for a large customer and then be unexpectedly notified by this customer that he has decided to make his own parts. In order to maintain his business, the manufacturer of parts should have many customers; he should, if possible, sell his goods for use in different industries; and he should make several different products. He should constantly try to improve his products and develop new products from time to time.

Fabricated parts are commonly sold direct to the manufacturer of the finished goods by salesmen, but they may also be handled by wholesale supply houses.

Who controls the purchase of industrial goods?—The purchase of the equipment for a plant is such an important matter that it may be passed upon by the officers, directors, or stockholders of a company. However, this does not usually mean that they specify the exact goods or brands to be bought. The actual choice may be made by the company's engineer, plant manager, foreman, purchasing agent, or president.

The purchase of a company's chief raw materials is likely to be made by the purchasing agent or by some other responsible executive who spends a large part of his time studying the goods and trends of prices. A tire company, for example, may have one purchasing agent who devotes his entire time to the purchase of

crude rubber. He thus becomes an expert on rubber and may have the help of research departments which devote much time to studying the qualities of rubber and its price movements. In some companies the purchasing agent is a real executive who has considerable authority in determining what is to be bought. In other companies, he is merely a high-grade clerk placing orders for goods requisitioned by the executives.

Finding the buyer.—The seller often has difficulty in finding the man or men who actually make the purchase. To illustrate, a company may have plants in Texas, an engineering office in St. Louis, and a purchasing office in New York. The order will actually be placed in New York, but the goods may be specified by the plant managers in Texas and approved by the engineers in St. Louis. To illustrate the difficulty involved, a seller reports losing a sale for which he had worked hard and "sold" everyone in the buyer's organization from the foreman up to the president. The order, however, was placed by the board of directors, which gave the order to a large and nationally known company on the basis of its general reputation.

Type of salesmen needed.—There is a difference of opinion as to whether trained salesmen or technical men produce the best results in selling industrial goods. Companies using trained salesmen say that selling industrial equipment is not fundamentally different from selling other goods; that the same principles of psychology and salesmanship apply; and that a good salesman can acquire the necessary knowledge of the products. When necessary he can call upon the company's chemists, engineers, or metallurgists, to give needed information to prospective customers. Those companies using technical men feel that their products

are so complicated that technical knowledge is necessary to explain them to the buyers, who are themselves often technical men. When technicians are used, they are usually given some training in the principles of salesmanship.

For highly complicated products, such as machines that are built to order, trained technical men seem to be preferred. For simpler and less complicated products, such as steel, expert salesmen appear to give better results.

Chapter 13

Review Questions

1. What is meant by industrial goods? How do they differ from consumers' goods?

2. What are the different types of industrial goods?

3. What can you say of the demand for industrial goods?

4. What are the different types of equipment?

5. What determines the value of equipment?

6. Why is new equipment purchased?

7. How does the seller of equipment find buyers?

8. When can the equipment manufacturer advantageously advertise in magazines read by the general public?

9. How is equipment sold?

10. What functions does the manufacturer's agent perform in selling equipment?

11. What types of merchants sell equipment? What functions do they perform?

12. What are operating supplies?

13. What factors have limited the demand for coal? Who are the principal users?

14. How is coal marketed?

15. What determines the quality of coal? How can the buyer select the proper coal for his needs?

16. What middlemen market coal? Which are merchants and which are functional middlemen?

17. How does the marketing of raw materials differ from the marketing of equipment?

18. Where is steel produced? What are its chief uses?

19. How is steel marketed?

20. Describe the operations of steel jobbers. What services do they perform?

21. What problems face the manufacturer of fabricated parts? What can you say of the security of his market?

22. How are fabricated goods sold?

23. Who controls the purchase of industrial goods?

24. What is the position of the purchasing agent in buying industrial goods?

25. What type of men should be employed to sell complicated industrial equipment? To sell small and standard appliances? To sell raw materials such as steel?

Thought Problems

1. What is meant by reciprocity in buying?

2. What industrial goods can you find advertised in periodicals with general circulation?

3. How would you classify the following goods: plumber's tools; typewriter ribbons; sugar; tin plate; pig iron; lumber; machine tools; crude rubber; automobile tires; tin ore; pig iron; tin?

4. What is meant by obsolescence? What is its importance in marketing equipment?

5. Both the coal mining and the steel industries are said to be overdeveloped. How does this overdevelopment affect the prices of coal and steel?

6. What place should the purchasing agent of a manufacturing company occupy in the buying of coal? of lubricating oil? of stationery? of equipment for a new plant? of motor trucks? of bookkeeping machines? of automobiles for the company's salesmen?

CHAPTER 14

Selling Service

Meaning of service.—We spend our money not only for goods but also for services. In the past most of the attention of those interested in distribution has been devoted to the marketing of goods; services, however, are also very important to the consumer. If we include savings, taxes, and shelter, then services take between 40 and 50 per cent of our income. We may think of services as those things which we buy that are not tangible goods. There are many such things. When we buy insurance, we receive only a policy; when we buy a ticket to the theater, we obtain only the right to see and hear the performance; when we visit the barber shop, we carry away no goods; and when we pay the laundry bill, we receive no new clothes. In all such cases we are buying intangible things and not actual goods.

Kinds of services.—There are many kinds of services. First, we find various types of personal service. In this group come entertainment, such as talking pictures, music, and athletic contests; medical advice; laundry and pressing service; protection furnished by detective agencies, guards, and lawyers; credit information; work in making repairs, as on automobiles, watches, and shoes; and so forth.

Second, there is transportation, the moving of goods and persons from one place to another.

The third type of service includes the group which we commonly refer to as "utilities" or "public service" com-

panies which sell electricity and telephone and telegraph communication. Water and gas are generally included in this group, although they are definite commodities.

Fourth, there is savings. When we save we receive a deposit slip from the bank, an insurance policy, a mortgage, a bond, or shares of stock. When we save we postpone the satisfaction of consuming goods or services to a later time.

The fifth type of service includes the rental of lodgings and shelter, such as hotel rooms, apartments, and houses. We receive the right to use definite physical goods, but we do not receive ownership of the buildings.

And last, we have services provided by the government, such as schools, police and fire protection, and streets and roads, for which we pay taxes.

Importance of service.—It has been estimated that the American people spent in the neighborhood of ten billion dollars annually for rent in the years from 1927 to 1931. Savings vary with the prosperity of the country but in several years have been over ten billion dollars. Personal, professional, and public utility services and amusements cost another ten billion. The total cost of transportation is even larger, but most of it is involved in moving goods and is paid for by the consumers in the purchase of the finished goods. In the depression year of 1933, the sales of hotels, personal service establishments, and amusements amounted to 2,761 million dollars.

Figures showing the number of establishments, sales, and employees for selected service industries, as reported by the Census for 1933, are given in Table 24. It should be remembered that 1933 was a poor business year. It is also possible that the Census enumerators missed some establishments.

TABLE 24.—BUSINESS OF SELECTED SERVICE INDUSTRIES IN 1933
(Census Data)

	Number of Establishments	*Sales (millions)*	*Average Number Full-Time Employees**
Total services (only a part listed below)	443,217	$1,725	356,190
Barber shops	117,832	204	71,347
Beauty parlors	42,073	117	42,733
Cleaning & pressing	55,459	136	28,274
Funeral directors	12,655	172	16,414
Hand laundries†	13,691	37	7,811
Photographic studios	8,330	32	5,881
Shoe repair shops	50,425	87	12,876
Shoe shine parlors	7,027	10	2,826
Credit adjustment & collection bureaus	1,824	35	11,936
Advertising agencies	1,479	190	11,642
Trucking	23,102	175	39,291
Plumbing and heating repairs	6,608	27	3,447
Radio repair	4,501	6	650
Watch & jewelry repair	9,678	15	1,302
Amusements (only a part listed below)	29,737	520	87,372
Pool parlors & bowling alleys	11,438	32	9,016
Dance halls	2,933	10	2,884
Motion picture theaters	9,499	356	54,030
Theaters, legitimate stage, & opera	122	9	1,182
Motion picture & vaudeville theaters	644	50	7,924
Hotels	29,462	516	213,919
Year 'round	27,128	493	205,570
Seasonal**	2,334	22	8,349
TOTAL SERVICES, AMUSEMENTS, & HOTELS	502,416	$2,761	657,481

*Does not include proprietors, partners, members of their families, and part-time employees Total number of proprietors, 546,444.
†Power laundries included as factories in Census of Manufactures.
**Figures probably incomplete as many hotels were closed when Census was taken.

Selling services and selling goods.—The demand for services arises from the same human desires as the demand for goods. The methods of selling goods and services, however, differ in some respects. Services are often

sold direct by the producer to the consumer, and middlemen are of relatively less importance than in the sale of goods. The middlemen used may be either merchants who buy and sell in their own right or agents who are paid by the seller. Tickets (theater, steamship, baseball) are often sold though agents and sometimes by dealers (e.g., speculators); mortgages, stocks, and bonds are often sold through banks and investment houses; and insurance policies are distributed through agencies.

It requires a higher type of salesmanship to sell intangible services which the buyers cannot see than to sell tangible goods. The salesman must appeal to the imagination. The insurance salesman cannot show his wares, for the buyer receives only a policy which gives him the right to receive something at a later time, or protection against a contingency which may not happen. The bond salesman must persuade his customers to limit present spending for the advantages of future spending.

The salesman for education, entertainment, travel, or advice must induce the customer to purchase before he knows the quality of service which he receives. The quality of past purchases may, however, be an important factor with some buyers. In the sale of lodgings, on the other hand, the salesman has very definite goods to show the buyers, who can see the house, the rooms in the apartment, or the furnishings in the hotel.

Advertising.—Advertising is used in the sale of services and is often of greater importance than personal salesmanship. Many services are sold in such small units that the size of the sale does not justify sending out salesmen to hunt for individual customers. It would, for example, be rather expensive to employ outside salesmen to sell tickets to picture shows. Salesmen, however, are

often used when the individual sales are of large value, as is true of travel tours, bonds, or insurance.

The great majority of people are prospective buyers for many kinds of services. Such services can be advertised in the newspapers, on billboards, in magazines, by radio, and by the use of direct-mail material, such as letters and pamphlets.

Publicity.—Publicity has been distinguished from advertising by the fact that it is not paid for directly. It may be printed or oral and is frequently used in the sale of various kinds of service. This is particularly true of sports and amusements, which are given much publicity by the newspapers. Publicity is often used to *sell* such ideas as thrift and health—for example, dental and medical examinations—to the public.

Selling entertainment.—There are many forms of commercial entertainment—theaters, ball games, prize fights, musical concerts, circuses, clubs, tours, dance halls, and the like. The relatively small size of the individual sale (ticket) of most of these amusements limits the use of personal salesmen. The sellers often advertise on billboards, in local newspapers, on theater programs, in hotel lobbies, and direct by mail. Some films are advertised in magazines with national circulation. Publicity is a potent factor in creating demand for many of these exhibitions. The attendance at ball games or prize fights may be largely determined by the publicity on the sports pages of the papers, and the attendance at theaters or musical performances is influenced by the press reviews and notices. People flock to see those pictures which their friends tell them are good and avoid those which are said to be poor. Sellers want to get people to talk favorably about their performances.

The enjoyment of entertainment depends upon other things than the intrinsic quality of the performances—such, for example, as the weather, the surroundings, and the kind of people in the audience. The theaters have been among the leaders in cooling their buildings in hot weather. Beautiful surroundings likewise help. People want change—variety is the spice of life. Entertainers are constantly on the lookout for new forms of amusement or for new settings for old forms. Few factors attract customers like crowded houses—the knowledge that all the seats have been sold.

Selling professional services.—Some professions limit their members in soliciting business. In such cases, the theory seems to be that if the professional man does good work, his clients will tell others and his practice will grow. This is the basis of the ethics of the legal and medical professions, which prohibit personal salesmanship and large advertisements. Other groups have an entirely different viewpoint. Credit bureaus, for example, employ both salesmen and advertising. Advertising agencies believe in advertising and hence advertise and employ salesmen to secure clients. Accountants frown upon the use of advertising but allow a certain amount of personal salesmanship. Statistical organizations employ salesmen and advertise.

Regardless of whether or not the seller of this type of service advertises, a considerable portion of his success will depend upon how his clients speak of his services. Reputations may be established in this way, and reputation counts greatly in attracting customers.

Other personal services.—Repair shops, detective agencies, laundries, barber shops, beauty parlors, and the like, very often advertise, and some organizations employ

salesmen. They may use advertising novelties, telephone directories, billboards, electric signs, and direct-mail advertising, as well as advertisements in periodicals.

Selling transportation.—To meet competition the railroads have improved their service, speeded up their trains, advertised to the public, tried to make their employees courteous and helpful to travelers and shippers, and in some cases reduced rates.

To secure freight traffic, the roads often provide special terminal facilities, such as warehouses for storing and reshipping merchandise, team tracks, unloading platforms, heated warehouses and auction rooms, stores equipped with refrigerators for butter and egg dealers, and elevators for handling grain. Many roads pick up and deliver less-than-carloads free. This service is called "store-door delivery." They advertise the frequency of service and the promptness of trains. The roads employ personal salesmen to solicit business from large shippers. The service furnished by the roads in promptly supplying empty cars for loading, in picking up loaded cars, in spotting cars for unloading, and in settling claims for loss and damage, and the speed and regularity in delivering goods at destination, are of fundamental importance in securing business.

Some railroads have organized personally conducted travel tours. Some serve tea to passengers on their trains. Some have provided reserved seats in day coaches. Some sell combined rail-and-air, and rail-and-bus, tickets. Many have personal salesmen to solicit passenger business, especially sight-seeing and convention parties. The railroads advertise the speed and luxury of their passenger trains, the scenery along their routes, the cleanliness and safety of their trains, and the excellence of the

meals in their dining cars. Direct-mail advertising telling about the railroad service is sent to members of organizations that are holding conventions.

Buses, trucks, and airplanes may use similar methods to obtain customers. Speed or quickness of delivery, frequency of service, cleanliness, low cost, and safety may be advertised in magazines, on billboards, in newspapers, and direct by mail. Publicity and personal salesmanship also may be used. Satisfied customers tell others and increase traffic.

Selling electricity.—Central station companies promote the sale of electricity in many ways. To sell electricity to the general public, it is, of course, necessary that houses be wired. The number of wired homes is therefore increased by advertising electric service, by low prices or liberal credit on the cost of wiring, by reduced price for electricity, and by extending electric lines. In recent years the number of wired houses has been notably increased by the building of rural lines which supply the farmers with electricity for operating machinery and household appliances and for lighting farm buildings.

After a house is wired, the company may increase the sale of current by inducing the consumers to buy more electric appliances. Many electric companies promote the sale of such electrical appliances as irons, washing machines, percolators, fans, mangles, radios, refrigerators, toasters, waffle irons, and stoves. They realize that the more appliances there are in use, the more current will be used. Some companies themselves sell such appliances through their own retail stores or by house-to-house salesmen. They often advertise such appliances in the newspapers and by material enclosed with the monthly bills. Some of them give liberal credit terms.

In order to increase the consumption of electricity by

merchants, the electric companies may have salesmen and lighting experts call upon them and show them how they can increase their sales by properly lighted show windows, display cases, store interiors, and outside electric signs.

Central station companies may increase the sale of electricity to factories and other industries by reducing rates and by convincing such users that they can secure more dependable and cheaper power than by generating it themselves. Large central stations can usually produce power more cheaply than small plants, because of the greater efficiency of their equipment. Large users may be able to buy power more cheaply than they can generate it, because they have to pay only for the power used and do not have to maintain large power plants which are idle much of the time. The central station company can use its equipment more regularly, as the peak loads of its customers do not all come at the same time. This reduces the overhead cost of each unit of current. Concerns that buy their power do not have capital invested in power plants, and they do not need space for such plants. In expensive city locations, the saving in space is an important factor. The central station company uses salesmen and direct-mail and business paper advertising to reach industrial buyers.

Selling gas.—Gas was originally used for lighting, but with the introduction of electricity, most of this market was lost. Gas was next sold for cooking, baking, and the operating of industrial furnaces. Electricity is now cutting into these markets. In order to maintain and increase their sales, the gas companies are selling gas for other uses—domestic water heaters, heating homes, and operating refrigerators. In order to hold the market for cooking and industrial furnaces, better types of stoves

and furnaces are being developed and manufacturers are shown the advantages of gas as a fuel.

Selling telephone and telegraph service.—The number of telephones has been increased by advertising the saving in time made possible by their use. Business men are urged to use the telephone for selling, especially for out-of-town calls. Long-distance service is sold by showing the saving in time and by reducing rates for night and Sunday calls. People are urged to put more telephones in their homes and offices, the convenience of extensions being emphasized.

The telegraph companies urge people to use telegrams to save time, to secure attention, and to get action. Many people consider telegrams as urgent and give them prompt attention. The advantage of telegrams for making sales and collections is obvious. Lower night rates induce people to send longer messages. Standard telegrams are provided covering many common situations; these messages save the time of the senders in writing messages and are often delivered at reduced rates.

Selling thrift.—Life insurance companies, savings banks, bond houses, and building and loan associations try to induce people to save. Life insurance sales have increased since insurance has been advocated as a method of saving rather than as a protection against death. People are told to save so that they can live in comfort when they reach the retirement age; so that their dependents can have an income sufficient to maintain their standard of living in case of the death of the breadwinner; in order to accumulate capital with which to enter business; as protection against the proverbial rainy day; and to attain a higher standard of living.

Personal salesmanship is apparently more important in the sale of life insurance and bonds than is advertising,

although various forms of advertising are used. Life insurance companies and bond houses have found that the proper selection and training of salesmen greatly increase sales.

The investment of money is based on the confidence of the investor in the security purchased. The ordinary consumer is incompetent or too busy to properly judge the quality of investments, and he therefore prefers to buy from a seller in whom he has confidence. The seller often acts as an advisor, and his success over a long period will depend largely upon the quality of the advice given. In order to secure confidence, most advertising of investments is conservative. Salesmen should dress conservatively and avoid extreme or exaggerated statements; they should have the knowledge, culture, and confidence that enables them to meet educated, intelligent, and successful people and to secure their respect and confidence.

Selling lodgings.—There are several types of hotels—commercial, apartment, resort, and family (residential). The sales problems of these various types differ slightly, but reputation, location, and appearances are important to all. People go to those hotels which they hear are good and stay away from those which they hear are poor. The hotel, naturally, wants to secure a good reputation.

Many commercial and resort hotels owe their existence to their location in business centers, near transportation facilities, near depots, in particular climates, or near natural beauty spots. Location is also important to apartment and residential hotels, which should have attractive locations with good transportation facilities connecting them with the business districts. Garage facilities are important to all classes of hotels.

The hotel can use inside and outside selling. Inside

selling is done by the employees and by printed notices in rooms, elevators, and dining rooms. Courtesy, friendliness, and prompt attention to wants by greeters, clerks, porters, waiters, and managers do much to create good-will. Notices in the rooms, in the elevators, and on the menu cards can be used to call attention to dining rooms, laundry and valet service, beauty parlors, libraries, and other facilities offered by the hotel.

Outside selling may be done by advertisements along highways, in newspapers, in hotel directories, in trade papers, on theater programs, and on advertising novelties. Direct-mail advertising may also be used. Mailing lists may include professional men, business men, salesmen, members or organizations holding their conventions in the city, and former guests. Resort hotels may send advertisements to former guests, to people who are about to be married, to school teachers and other professional people, to business men, and to society leaders.

Advertisements may feature food, bedside telephones, garage or parking facilities, comfortable beds, attractive rooms, convenience of location, valet service, libraries, nurseries for children, separate floors for women, or low prices. The resort hotel may advertise the beauty of its location; its private beach, golf links, or swimming pool; or the comfortable weather.

Personal salesmanship may be used to secure conventions or parties of tourists. Some large hotels have special departments to secure conventions.

Apartment hotels may call attention to the fact that their guests are relieved of worry over the servant problem; to their dining rooms, garages, soundproof walls, hand laundries, or beauty parlors; to the even temperature of their rooms; to the type of guests; to the convenience of transportation facilities or business and

education centers; to the quietness of their location; and to the beauty of their buildings.

The apartment house may call attention to the convenience of its kitchens, its iceless refrigerators, its garbage incinerators, its soundproof walls, its garage facilities, its restaurant, its laundry service, and the fact that its tenants are freed from the worry of furnaces and cleaning sidewalks.

Chapter 14

Review Questions

1. What is meant by service?

2. What are the different kinds of services?

3. How important are the various services to the consumer?

4. How does the selling of service differ from the selling of goods?

5. How does the sale of lodgings differ from the sale of bonds?

6. How is advertising used in selling service?

7. What is meant by publicity? How is it used in selling service?

8. Why do doctors not advertise?

9. How is entertainment sold?

10. How is professional service sold?

11. What is the difference in the way an advertising agency sells its service and the way a lawyer sells his service?

12. How do the railroads sell their services?

13. How does the sale of passenger service differ from the sale of freight service?

14. How do central station companies promote the sale of electricity to domestic users? To stores? To factories?

15. How do gas companies promote the sale of gas?
16. How is telephone and telegraph service sold?
17. How is thrift sold?
18. How may a commercial hotel advertise its services?
19. How may a resort hotel advertise its services?
20. How may an apartment hotel advertise its services?

Thought Problems

1. Why do the newspapers give so much free publicity to baseball and other sports? Professional sports are operated for profit. Is there any more reason why newspapers should give free publicity to them than to the department stores, hotels, and railroads?

2. Name services which you have heard advertised over the radio; which you have seen advertised in magazines; and which you have seen advertised in the newspapers.

3. Do doctors and lawyers attempt to secure publicity without paying for it?

4. Criticize the selling methods used by the railroads.

5. The Sunbeam Hotel is located between an important automobile highway and a beautiful lake in a resort country. In the past it has catered very largely to a transient trade. It is an AAA (American Automobile Association) hotel. It has a small private beach on the lake, golf links, and tennis courts, and boats for fishing are available in the community. The highway is relocated so that it runs some four miles to the west of the Sunbeam Hotel. The owner of this hotel is faced with the problem of changing to a resort business and securing tourist trade. Outline a selling plan.

Chapter 15

Marketing Farm Products

The nature of farming.—Farming is a small-scale industry. There are more than six million farms in the United States. We have heard much of large-scale farming by corporations, but the number of such large farms is relatively small. The typical farm is operated by the owner or a tenant, with the assistance of his family and often a hired man.

There are several types of farming. There is mixed (diversified) farming, especially in the East. Under this system the farmer may raise fruits and vegetables; grain; cattle, hogs, poultry, or other livestock; and milk or cream. There is middle western grain farming, in which the principal products sold are wheat, hogs, cattle, corn, and oats. There is the plantation of the Cotton Belt, operated with the assistance of several colored tenants. There is the ranch of the central and mountain states, raising cattle or sheep on a large scale. There are the fruit and truck farms of California, New York, New Jersey, Texas, Florida, and other states; in this type of farming, a few acres keep the owner busy. There are the dairy farms, especially near our large cities and in Wisconsin, Minnesota, Vermont, and New York, where the cows require systematic attention and produce a regular cash income throughout the year. There are also many small farms near cities and towns, operated by

people employed in the cities; such farms have increased rapidly in number with the use of the automobile.

With so many types of farms, averages mean little. They do, however, establish the fact that farming is a small-scale industry. The average farm consists of 145 acres, of which an average of 56 acres is in cultivation and 64 acres in pasture.[1]

One-crop versus mixed farming.—Some farmers are interested in producing only one product for the market —for instance, cotton, milk, corn, hogs, wheat, cattle, oranges, or tobacco. This is known as one-crop farming. If the season is good and the price is high, the one-crop farmer may be prosperous. If, on the other hand, the season is poor or the price is low, he may be very poor.

Some farmers produce many products for the market, not wishing to "carry all their eggs in one basket." This is known as mixed farming. If one crop fails, another may be good; if the price of one crop is low, the price of another may be high. The man engaged in mixed, or diversified, farming may work more days per year than the one-crop farmer, but over a period of years he seems to be more prosperous.

Farm income.—We have often considered the years 1923 to 1929 as normal good years in our economic life The years 1930 to 1933 were poor years, and especially so for farmers. In Table 25 figures for farm income are presented for 1929, which may be taken as a more or less normal year, and for 1933, a very poor year.

The farmers' net income declined 54 per cent between 1929 and 1933. The largest relative declines in income came in grain and in cattle, hogs, and sheep. The small-

[1] The remainder is in woodland or other unimproved land, or is fallow.

TABLE 25.—FARM INCOME FOR 1929 AND 1933

(Figures in Millions)

	1929	*1933*
Income from crops:		
Grains	$1,297	$ 506
Fruits and nuts	707	376
Vegetables	1,130	747
Sugar crops (cane and beets)	83	81
Cotton (including seed)	1,389	684
Tobacco	286	179
Other crops	542	301
Total crops	$5,434	$2,874
Income from livestock:		
Cattle, hogs, and sheep	$2,805	$1,186
Dairy products	2,323	1,263
Poultry and eggs	1,241	560
Wool	99	75
Other	39	27
Total livestock	$6,507	$3,111
Total income from crops & livestock	$11,941	$5,985
Rental & benefit payments by government	..	271
Gross income	$11,941	$6,256
Expenditures:		
Operating expenses (e.g., equipment, feed, fertilizer, ginning cotton, etc.)	1,972	1,088
Depreciation of equipment and buildings	912	762
Wages, interest, rent, and taxes	3,402	1,779
Total expenses	$6,286	$3,629
NET INCOME	$5,655	$2,627

est relative declines came in sugar, wool, vegetables, and tobacco.

The average gross income per farm was approximately $1,900 in 1929, and $995 in 1933. The average net income per farm was $900 in 1929, and $420 in 1933.

Concentration and dispersion.—Farm products are produced on millions of farms scattered over wide areas, and are often manufactured into food, clothing, or other products before reaching the final consumers. The prod-

ucts of the factories which manufacture these goods, and the farm products which are ready for consumption without manufacture, must be dispersed to supply the needs of more than a hundred million consumers.

Farm products as raw materials.—It has been estimated that approximately three-fourths of the farm products must be manufactured before they are consumed. Cotton must be spun into thread and woven into cloth; cattle, hogs, and sheep must be made into meat; and wheat must be made into flour, and often into bread, before reaching the consumer. Wool, flax, corn, tobacco, sugar cane, sugar beets, rubber, and broom corn are other products that must be manufactured before reaching the consumer.

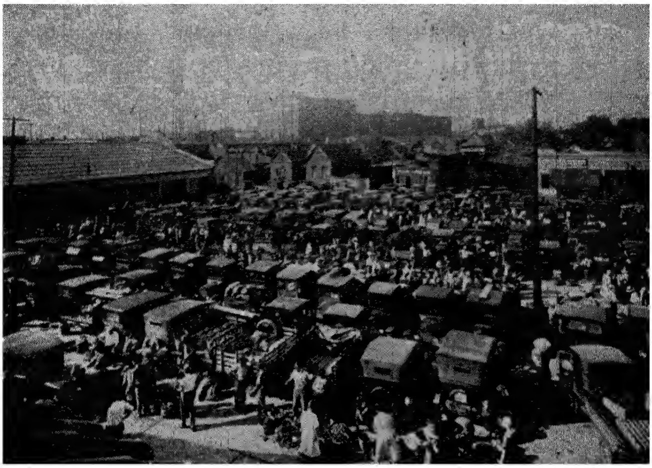
On the other hand, some farm products, including fresh fruits and vegetables, milk, farm butter, farm cured meats, honey, and nuts, are ready for consumption when they leave the farm.

Farm products as consumption goods.—Most farm products eventually become consumption goods—food, clothing, house furnishings, automobile tires, and the like. A relatively small portion of the farm products are finally consumed as industrial goods.

Marketing methods.—There are three common marketing methods by which farm products reach the market: first, sale for local consumption; second, shipment by truck to nearby markets; and third, shipment by rail, truck, or water to distant markets. Sale for local consumption is important in the sale of fruits, vegetables, milk, eggs, and poultry. Shipments by truck have grown very rapidly during the past decade, but the greatest quantity of goods are still moved by rail.

Farm products sold for local consumption.—Many farmers sell their products for local consumption. In

this case assembling is relatively unimportant. The farmer may sell direct to the consumer by peddling from door to door, by selling in farmers' retail markets, by shipping by parcel post, or by establishing roadside markets and selling to consumers who pass in their auto-



Courtesy U. S. Dept. Agriculture.

Fig. 20.—A farmers' market in a large city. In some markets the farmers sell fruits and vegetables to both dealers and consumers. In other cities there are separate wholesale and retail markets. When the farmers sell direct to the consumers, no middlemen are involved.

mobiles. To save the time necessary in selling to the consumers, the farmer often sells to local retailers; this practice is common in many towns for such products as milk, eggs, chickens, butter, vegetables, and fruits. In some cases the farmers sell to local jobbers who sell to the retailers.

Shipment by truck.—The motor truck has attained great importance in moving fruits, vegetables, poultry, eggs, cotton, tobacco, milk, and livestock. Butter and

grain are also moved by truck. Farm products are moved regularly for distances up to 200 miles, and longer distances are not unusual. Some districts ship most of their livestock, fruits, and vegetables by trucks. The truck often moves goods directly from producing sections to consuming areas and thus eliminates the necessity for goods passing through central distributing markets. The truckman sometimes acts as a merchant, buying the goods from farmers or from local buyers, hauling them to a city, and selling them in an attempt to make a profit. More often the truckman acts as a carrier and is paid by either the farmer or the buyer. City wholesalers often send their trucks into the country to buy goods from farmers and local buyers. In the city the truckman may sell his goods to wholesalers or to retailers, or, if he does not own the goods, he may deliver them to commission merchants to be sold for the account of the shippers. The truckman may occasionally sell to the consumers, but this method is usually too slow to be profitable, except for those using light trucks.

Rail shipment.—A very large proportion of farm products are shipped by rail, local buyers usually buying, assembling, and loading the goods into the cars. At times, goods pass through the hands of two middlemen in the country—the local buyer and the carlot shipper. The shippers consign the goods to commission merchants, have them sold by brokers, or sell to wholesale buyers. City wholesalers often send representatives out to contact country shippers and make purchases or arrangements for regular shipments. Sometimes connections are made by telegraph or mail. Sometimes the city wholesalers buy direct from the farmers. In the central markets the receivers of farm products sell them to wholesalers, jobbers, manufacturers, exporters, or in-

tegrated retailers; or they sell to brokers who purchase for such buyers.

The supply of farm products.—The production of many farm products varies widely from year to year because of differences in the weather and in the acreage planted. The weather is perhaps the biggest single factor in determining the supply of a given crop produced in a given year. A prolonged drouth may reduce the yield, and an untimely frost may ruin a crop; yet a good growing season with plenty of rain may mean a bumper crop. Other important factors that affect the supply are the number of acres planted and the number of livestock bred.

During a ten-year period, the wheat crop varied from 676 to 968 million bushels; the cotton crop varied from 8 to 18 million bales; and the potato crop varied from 323 to 453 million bushels. During the same period, the number of hogs on farms varied from 54 to 71 million, and the number of beef cattle, from 26 to 36 million.

The demand for farm products.—The demand for farm products is relatively steady. Farm products are used chiefly as food and clothing, the demand for which varies relatively little from year to year.[2]

Prices of farm products.—The supply of farm products varies widely, while the demand for them is relatively steady. The variation in supply causes great changes in prices, but the demand does not usually change very greatly with the fluctuation in prices. In

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[2] We need about the same amount of food every day. When prices are high or our incomes are low, we do economize to some extent by eating cheaper foods. A family that has been eating beef may substitute pork, while a family that has been eating pork may eat more bread. There is more of this shifting in Europe than in the United States, owing to lower incomes in Europe. Changes in European demand at times have influenced the prices of American farm products more than the changes in the United States.

order to stabilize prices, it would be necessary to control the supply.

Control of supply.—The farmers do not always reduce the supply of farm products when prices drop; in fact, when prices drop, some of them increase their acreage in an attempt to maintain their incomes. On the other hand, farmers usually increase production when prices rise. The cultivated acreage in the United States increased with high prices from 311 million acres in 1909 to 376 million in 1919. Prices broke sharply in 1920. In spite of the lower prices, the acreage fell to only 357 million in 1926, and remained near that figure for several years. This was a decrease of 19 million acres. Trucks, tractors, and automobiles were substituted in large numbers for horses. Such machines do not consume farm products as do horses. It is estimated that these changes eliminated the demand for the products of about thirty million acres. Scientific farming also increased the yield per acre in some instances.

Several reasons for the failure of farmers to reduce production may be mentioned. Many of the farmer's expenses are fixed—for example, taxes; interest on mortgages; and depreciation of buildings, fences, and equipment. Such expenses go on whether production is curtailed or not. The farmer's cash income is generally higher than the expenses which he could avoid by reducing production; therefore he has little incentive to decrease acreage. Finally, if the farmer tries to solve the problem by leaving the farm, his investment may be lost unless he is able to sell it. Farming is a method of making a living, and even if the farmer does not receive much cash, he has his food and a house to live in. He is hopeful that the next season will bring higher prices, a larger crop, or both

Shifting production.—It has been suggested that when the price of one crop is low, the farmer should shift production to more profitable crops. According to this view, a farmer should not stick to one crop, nor should he adhere rigidly to a definite rotation of crops on all of his land.

At present some such shifting is done. The acreage of potatoes, cabbage, cotton, and flax does vary considerably from one year to another. In most cases, however, acreage is changed in response to the price at or before the planting season and not according to expected future prices. Thus, if the price of cotton is high during January and February, the acreage is increased—often so greatly increased that the price of the next crop is low. Such changes defeat themselves. To make his operations profitable, the farmer should shift his production in accordance with probable future prices.

Forecasting prices.—In order to shift production wisely, the farmer should forecast prices, which means that he must predict supply, since demand is fairly constant. Future supply depends upon the amount carried over from previous years, the weather, and the acreage. Can the weather and the acreage that will be planted be foretold? According to some, the weather runs in predictable cycles; as yet, however, weather cycles are too little understood to be of a great deal of use to the average farmer. The government issues reports, or estimates, of intended plantings (acreages) for certain crops. These reports may be useful to those planting late in the season, who can decrease or increase their acreages accordingly.

It has been observed that the production of some products runs in more or less well-defined cycles. There is said to be a 2-year cycle in cabbage and cotton, a 4- to

6-year cycle in hogs, and a 6- to 10-year cycle in beef cattle. To the extent that such cycles hold true to past performance, the individual farmer can forecast future supply with some assurance.

Production cycles.—Production cycles appear to be caused by variations in supply and price. One year there is a large cabbage crop; the price drops to an unprofitable level, and the farmers plant fewer cabbages the next year. This smaller acreage reduces the yield and raises the price, so that the next year the farmers increase the acreage of cabbage.

When hogs are plentiful, the price drops. It is more profitable for the farmers to sell their corn than to feed it to hogs. They therefore raise fewer pigs. Within a year and a half or two years, there are fewer hogs on the market, and prices rise; this higher price causes farmers to increase the number of pigs raised. The farmer who studies the price trends and the supply factors and acts accordingly has many hogs to sell when prices are high and few hogs to sell when prices are low. The farmer who bases his operations on present prices has most hogs to sell when prices are low and fewest hogs to sell when prices are high. A middle course is followed by some farmers who raise about the same number of hogs each year regardless of the price.

The idea of forecasting prices can be illustrated by an old story of a farmer who got rich by planting the crops with low prices. If the prices of potatoes and cabbages were low, he would increase his acreage of these crops and pass by or reduce his acreages of the crops with high prices. This man based his actions on the belief that other farmers would do the opposite. This is a good policy as long as the majority of farmers act as expected; but as soon as the mass of the farmers come to follow the

policy of this man, a different method of forecasting prices will be necessary.

The coöperative marketing of farm products.—In order to raise the prices received for products and lower the prices of supplies bought, the farmers have organized coöperative marketing associations. These associations are based upon joint action on the part of their members for the purpose of selling their products or of buying supplies.

There are nearly 11,000 of these organizations with over three million members.[3] Their annual business in 1933–34 was estimated at 1,365 million dollars. Nearly one-fifth of all the products sold by the farmers pass through the hands of coöperative associations, and more than four-fifths of the total business of the coöperatives consists of the sale of dairy products, grain, fruits and vegetables, livestock, and cotton.

The basic principles of a coöperative organization are democratic control, a limitation of interest paid on capital to a fair rate, and the distribution of profits to the members on the basis of the volume of business furnished by each. This latter principle is known as *patronage dividends.* If an organization handles 10,000 bushels of a product and makes a profit of $1,000, it could pay a patronage dividend of ten cents a bushel. If John Smith delivers 1,000 bushels to the association, while Henry Brown delivers 500 bushels, John Smith would receive a patronage dividend of $100, while Henry Brown would receive $50.

Types of coöperatives.—Of the several types of coöperative associations, the two most important types, for

[3] As one farmer may belong to more than one association, these three million members represent a considerably smaller number of farmers

our purposes, are small, local associations and large, national or regional associations. The small, local association ordinarily operates at one country shipping point or at a few nearby shipping points. The large association covers a large territory. It may handle goods at many shipping points and have its own organization to handle goods in the central markets. The large organization may be a federation of a number of small associations, or it may be a centralized organization setting up whatever shipping facilities it thinks necessary at local points.

Objects of coöperatives.—The objects of farmers' coöperatives are to reduce marketing costs; to increase demand; and to stabilize prices, in order to increase the prices received by the farmers.

Reducing marketing cost.—The coöperative association attempts to reduce marketing costs by increased efficiency, by eliminating the profits of the private middlemen, and by reducing the duplication in marketing machinery. When efficiently managed, coöperatives often return worthwhile benefits to their members. If not efficiently managed, they are often able to pay no higher prices than competing private middlemen and are often forced out of business. Two coöperatives seldom compete at the same shipping point, which often means that the coöperative (elevator or creamery, for example) secures a larger volume of business than do the competing private shippers. The large volume may therefore enable it to operate at a lower unit cost. Unless it is less efficiently operated, it can secure for its members the profits of the private middlemen.

The local association assembles the farmers' products, ships them to central markets, and often grades and packs the products handled. The association in the

central market receives goods from the country and sells them for the local associations.

Pooling.—The coöperative association often pools the farmers' products, by which is meant that all goods of the same quality received during a given period are handled as one lot. The same price is paid for all goods in a pool, although they may be sold at different times and prices. The farmer receives the average price realized on the sale of all the goods in the pool, less operating expenses. Thus the individual farmer does not suffer as the result of poor luck in selling his own goods in a poor market or on a poor day; neither does he benefit from good luck in selling them in a good market or on a good day.

Increasing demand.—Many coöperative associations try to increase demand by advertising, by improving the quality of their products, and by having all markets supplied regularly.

Stabilizing prices.—Prices may be stabilized by keeping all markets regularly supplied. This is called *feeding the market*. Goods need to be distributed both at the right place and at the right time. The association tries to distribute goods so that all markets are evenly supplied. Goods should be so distributed that both gluts (over-supplies) and famines are avoided.

Monopoly prices.—The farmers may secure higher prices as a result of efficiently managed coöperative organizations; but it must be remembered that if prices are raised to profitable levels, the majority of farmers will increase their production (unless prevented from doing so in some artificial way). This increased supply will lower prices.

The farmers have at times tried to secure monopoly prices. In order to secure monopoly prices, it is necessary to control the supply. The farmers have attempted

to control the supply through coöperative associations, but so far they have been unable to control supply except for short periods. When the price is raised, production increases. It appears that the farmers are unable to control supply permanently through coöperative associations and hence are unable to secure permanent monopoly prices.

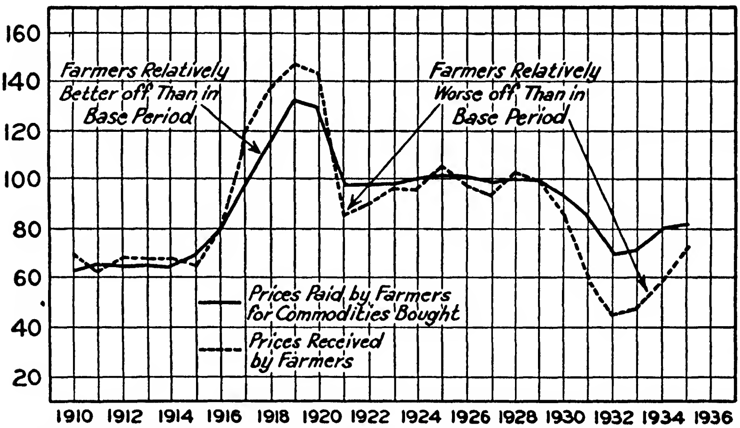

Fig. 21.—Prices of farm products and of products purchased by farmers. (1923–25 = 100)

Prices paid and received.—The farmer's welfare depends almost as much upon the prices which he has to pay for the things he buys as upon the prices of the things he sells. Much has been heard about the suffering of the farmers resulting from the low prices of farm products. It would be just as accurate to say that they suffered from the high prices of the things they bought. If we take the years 1923 to 1925 as a base period—a period when average conditions prevailed—we find that the farmers were relatively well off from 1900 to 1920, and relatively badly off in 1921, 1922, and from 1930 to 1933. See Figures 21 and 22.

Farm relief.—The farmers largely produce raw materials. When prices change rapidly, it has been observed that the prices of raw materials go up and down ahead of other prices. The price situation was favorable to farmers for the 20 years prior to 1920, but in 1920 prices dropped sharply. The prices of farm products dropped faster and more than the prices of the things they purchased, causing hard times on the farms and leading to various governmental plans to help the farms—which were commonly called *farm relief.*

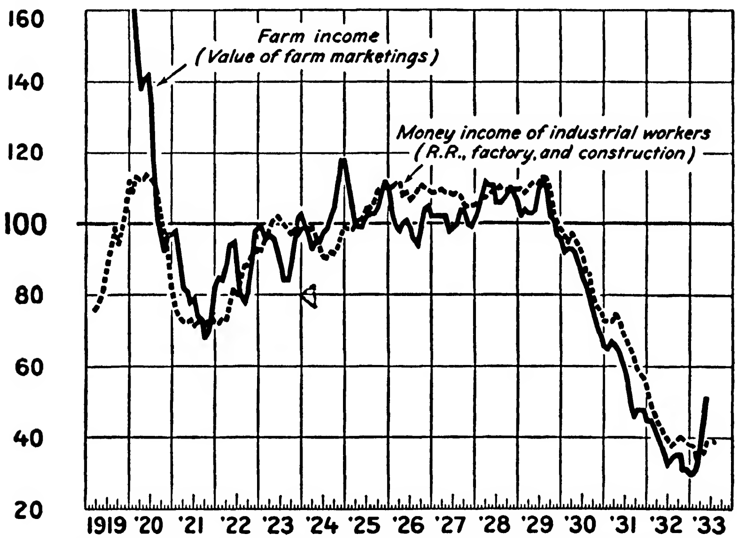

Fig. 22.—Farm income and income of industrial workers, 1919–1933.
(Bureau of Agricultural Economics)

Early forms of relief.—One of the first of plans for helping the farmers was to loan them money to carry them over until prices rose. This plan was based on the idea that prices would soon go up. The trouble with all of the relief plans tried between 1920 and 1932 was that

they were based on the belief that farm prices were only temporarily low, and that if the farmers could be tided over for a year or two prices would right themselves. We should have realized that the supply of farm products had been increased as a result of the relatively high prices of farm products during the two previous decades, and particularly the war period. Also, the demand for farm products as horse feed was decreased as a result of the displacement of horses by automobiles, trucks, and tractors. Farm relief perhaps kept the farmers from reducing production as fast as they otherwise would have done, and the large production helped to hold prices down. We might say that prices of farm products were not too low, but that the prices of the things the farmers bought were too high. The farmers would have been helped more if we had brought these prices down by lowering our tariffs and by enforcing our anti-trust laws. We did neither but, instead, loaned the farmer money. This only got him deeper into debt, and farm mortages increased from 7,858 million dollars in 1920 to 9,361 million dollars in 1925.

It was also argued that farm prices were low because of high marketing costs. To reduce marketing costs, the government spent money in helping organize cooperative marketing associations.

Tariffs.—The farmers were told that the manufacturer was prosperous because of high tariffs, and that they should have the same protection. Import tariffs on farm products were therefore raised. It is well known that a tariff cannot raise the prices of goods that are exported; the prices of such goods depend upon the prices in the countries in which they are sold. The enactment of tariffs on foreign farm products was thus largely a "gesture" to show goodwill toward the farmers. Many have

argued that these tariffs led foreign countries to retaliate by raising their tariffs against our farm products and so actually injured the farmers. Whether this is true or not; the wave of nationalism that swept over much of the world led many countries to try to raise their own foods and raw materials. To do this they raised their import tariffs and in many cases paid subsidies to their own farmers, thereby causing a marked decrease in demand from Western Europe for our farm products. This decreased demand has been one of the principle causes of the low prices of farm products in the United States.

Farm Board.—Next, in 1929, the Farm Board was organized to buy up the surplus farm products and hold them off the market until prices improved. The Board also tried to develop new foreign markets for our surplus farm crops. The purchases by the Board probably retarded the rate at which prices dropped in 1930 and 1931; it could not, however, stop the decline. It was finally discontinued, after costing the taxpayers many millions of dollars, most of which was in effect taken from the taxpayers and given to the farmers. It was soon evident that purchases by the Board would not raise prices and that if prices were to be raised, the farmers must reduce production. The Board spent considerable time urging the farmers to reduce acreage, but without noticeable results.

Subsidy.—An import tariff cannot raise the prices of goods that are exported. Many people have felt that it was very unfair for the farmer to sell his crops at world prices and then buy goods for his own use (that is, manufactured goods of various types) at prices which are above prices in other countries because of a protective tariff. The simplest method of removing this inequality

would be to reduce the tariff on manufactured products. This plan, however, was not seriously considered. Instead, various plans were proposed for raising prices of farm products so as to give the farmer the benefit of the tariff. The simplest way of doing this would be by a direct subsidy. A government-controlled corporation could be established which would offer to buy all of a given product at the desired price. If we wanted the price of wheat to be $1 a bushel, this corporation would offer to buy wheat at $1. The price would immediately become $1, for no one would sell wheat for less than the price the government corporation would pay for it. If we raised 800,000,000 bushels of wheat and needed only 650,000,000 bushels for home use, the corporation would buy and export the extra 150,000,000 bushels in foreign countries at the prices existing there. If it received 60 cents a bushel for the wheat exported, the result would be a loss of 40¢ a bushel, or a total of $60,000,000 on the 150,000,000 bushels exported—a loss which would be borne by the taxpayers.

Such a subsidy would be a relatively simple and effective method of raising prices. The difficulty would be that with higher prices the farmers would increase production; therefore a heavier and heavier burden would be placed on the taxpayers. For this reason, this type of subsidy was not tried. If such a plan were introduced to meet an emergency, there is danger that the farmers would use all their political influence to prevent its removal once the emergency had passed and that it would have to be applied to all farm products.

Debenture plan.—The "debenture" plan was also widely discussed. This is a plan for a subsidy, the cost of which would be charged to the farmers and not to the taxpayers. The loss on goods exported would be charged

back to the farmers as a reduction in the price received for goods sold for domestic consumption. The greater the loss on exports, the greater the charge against the products used at home and the lower would be the net price to the farmer. It was argued, for this reason, that the plan would not increase production as would a direct subsidy. It appears that a very complicated organization would be required for the operation of the debenture plan.

Domestic allotment plan.—It was evident that a plan to raise prices should involve a plan for reducing production, or at least for preventing an increase in production. To meet this requirement, the domestic allotment plan was proposed. Under this plan, producers of basic agricultural commodities[4] would be paid for reducing their acreage. The idea was to reduce production sufficiently to raise the prices enough to equal the tariff—42¢ a bushel on wheat, 5¢ a pound on cotton, 2¢ a pound on hogs, 5¢ a pound on tobacco, and ½¢ a pound on rice. This plan was enacted into a law known as the Agricultural Adjustment Act (AAA) on May 12, 1933. Benefit payments to the farmers under this Act were 271 million dollars in 1933, about 600 million dollars in 1934, and nearly 500 million dollars in 1935.

Corn-hog contracts.—The method of applying the Agricultural Adjustment Act may be illustrated by the 1935 corn-hog contracts. If the farmer agreed to reduce his corn acreage from 10 to 30 per cent under his average in 1932 and 1933, he was paid 35¢ a bushel for the average yield of the land so retired from cultivation. If he reduced the number of hogs raised for the market

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[4] In 1935 the following were set by the government as basic commodities: corn, wheat, rye, potatoes, rice, sugar beets, sugar cane syrup, peanuts, tobacco, and hogs.

by 10 per cent of the number raised in 1932 and 1933, he received $15 for 10 per cent of the average number of hogs raised in these years. As popularly expressed, he received $15 for each hog he did not raise—but only up to the specified percentage of his average production.

Who pays the tax?—The money with which to pay the farmers was raised by a processing tax collected from processors and handlers of farm products. These taxes were intended to be passed along to the consumers in the form of higher prices, and the consumers—not the taxpayers or farmers—were expected to pay the farmers for reducing production. It is generally supposed that a tax on output or sales is added to the price by the manufacturer or merchant and passed on to the consumer; but unless the purchasing power of the consumer is increased, the higher prices reduce his purchases somewhat, so that a part of the tax is forced back on the producer. When the AAA processing tax was imposed on hogs, prices dropped and the farmer felt that he was paying the tax; but after the drouth of 1934, prices rose and the consumer then felt that he was paying the tax. When the processing tax was declared unconstitutional in January 1936, the prices of corn and wheat declined slightly; the price of hogs increased by almost one-third the amount of the tax; and the price of spot cotton increased slightly, while the price for the new crop of cotton declined in anticipation of a larger crop. These movements might be interpreted to mean that the consumers had been paying all the tax on bread, nearly all of it on cotton, and two-thirds of it on pork.

Benefits of the AAA.—There was much controversy over the effects and benefits of the Agricultural Adjustment Act. Much may be said for the argument that the best way to help the farmer would be to reduce the

general price level, for this would help the farmer by reducing the prices of the things he buys and would keep the prices of farm products in line with world prices so that our surplus could be exported. On the other hand many argue that our export markets are gone and that we must permanently reduce our production to domestic requirements. It will be exceedingly difficult to reduce the production on some crops to domestic needs. For example, we have been exporting about one-half of our cotton crop; if production is reduced one-half, what will become of all the displaced labor? The high price of cotton under the AAA caused other countries to increase their cotton crops and so made it harder to export American cotton.

Many feel that it is absolutely wrong and opposed to the course of nature and economics to reduce production artificially—that we cannot become prosperous by producing less. Many feel that any plan for acreage reduction will fail, for, if the farmer reduces his acreage, he will cultivate the remaining acres more intensively. He may also plant the abandoned acres in other crops, the increased supply of which will cause low prices for them. To prevent these difficulties, all products will have to be brought under control; and control of such matters would involve so much enforcement machinery that the plan would be likely to break down under its own weight.

Many argue that it is fundamentally wrong to place the burden on the consumer, that it is absolutely unethical to tax one group for the exclusive benefit of another group, and that if the plan is necessary, those benefited should pay the cost. Others argue that the plan was justified as an emergency measure, but that it should have been discontinued when the drouth of

1934 removed the surplus. The trouble with such emergency relief measures is that those benefited do not want them discontinued.

Do we need permanent control of agricultural output? —Some people feel that some plan of permanent control of agricultural output is desirable. They believe that a large part of our export market for grain and livestock has been definitely lost and that we must curtail production of these products until our own population increases sufficiently to require more food. From this time, they argue, the problem will be to increase output or to shift production from less profitable to more profitable areas. We have already seen that higher prices will quickly stimulate output. It may bring land into cultivation that should be left in grass or forests.[5] For these reasons, the case for a permanent control of agricultural production rests largely on the desirability of moving farmers from poorer land to better land and of placing the poorer land in forests and grass.

It has been estimated that since the World War the substitution of trucks, tractors, and automobiles for horses has deprived the farmers of a market for the output of 30 million acres of land formerly used to raise horse feed, and that lost export markets have deprived them of the markets for the output of almost 30 million additional acres. Yet, the increase in the population since the World War has absorbed the output of 30 million acres, so that the excess of land in cultivation over that actually needed for domestic requirements and remaining export market is now only 30 million acres,

[5] For example, it is said that the high price of wheat during the World War led to plowing up much grazing land in the Great Plains and that this has been largely responsible for the great dust storms in recent years.

or an area equal to that formerly used to raise crops for our lost export markets. It is argued that the farmers should be paid to keep this acreage out of cultivation until the population increases sufficiently (by some 10 million persons) to absorb the product. It has been estimated that our population will become stationary at about 150,000,000 within the next 35 years. If this turns out to be a correct forecast, we shall need to expand our present acreage of cultivated land by 30 to 40 million acres in order to feed and clothe our population at the present standard of living.

Chapter 15

Review Questions

1. What is the nature of farming?

2. What is the average size of farms in the United States?

3. What are the different types of farming in the United States?

4. What is one-crop farming?

5. What is mixed farming?

6. What are the advantages and disadvantages of mixed farming as compared with one-crop, or specialized, farming?

7. Why must farm products be concentrated for the market?

8. How are farm products marketed for local consumption?

9. What farm products are ready for consumption as they leave the farm, and what products must be manufactured before they reach the consumer?

10. Are most farm products finally used as consumers' goods or as industrial goods?

11. What determines the supply of farm products?

12. What determines the demand for farm products?

13. Which is the more steady (inelastic), the supply of or demand for farm products?

14. What factors determine the prices of farm products?

15. Why do not the farmers reduce supply more promptly when prices decline?

16. What is meant by shifting production to more profitable crops?

17. Can the farmer forecast future prices? If so, how? If not, why?

18. What is meant by cycles of production? What causes such cycles?

19. What are coöperative marketing organizations?

20. What can you say of the importance of the coöperative marketing of farm products in the United States?

21. What are the principles of coöperative organizations?

22. What are the types of coöperative organizations?

23. What are the objects of coöperative marketing among farmers?

24. How do coöperatives attempt to reduce marketing costs?

25. What is meant by pooling?

26. How do coöperatives attempt to increase the demand for their products?

27. How do the coöperatives attempt to stabilize prices?

28. What is meant by orderly marketing?

29. What is necessary in order to secure a monopoly price?

30. Have the farmers been able to secure monopoly prices?

31. What is meant by farm relief?

32. Name the plans tried by the Government for helping the farmers since 1921.

33. What plan did the Farm Board follow?

34. What was the plan of the AAA?

35. How did it work?

36. How would a direct subsidy operate? What would be its advantages and disadvantages as contrasted with the domestic allotment plan?

37. What do you think of the advisability of having the government permanently try to control the price of farm products?

Thought Problems

1. Why is farming a small-scale industry? Much is being said today about large-scale farming. It is said that the tractor will enable the farms to be operated on factory principles—owned by corporations and worked by hired employees. Do you believe that large-scale farming is practical? Do you believe that large farms operated by corporations will replace the small farm operated by the individual owner or tenant? Give reasons.

2. To what extent is farming in the United States commercialized? Are we justified in assuming without proof, as is often done, that commercial farming is better than pioneer farming?

3. Does the demand for farm products vary with the prices of these products? With the general prosperity of the country? Why, or why not?

4. Why does the price received by the farmer constitute such a small part of the price paid by the consumers for finished goods made from farm products?

5. Some people have expressed a fear that low prices for farm products would make peasants of our farmers. What is the difference between a peasant and a farmer? Do you believe there is a danger that low prices for farm products will make peasants out of the American farmers?

6. Can the farmer forecast future prices accurately enough to enable him to shift production to more profitable crops? Discuss.

7. How do coöperative organizations of farmers attempt to raise prices for their members?

8. Can the farmers secure monopoly prices for their products? If so, how? If not, why?

9. Coöperatives often attempt to increase the demand for their products. In recent years, the consumption of the following products has increased: oranges, lettuce, and carrots; rayon; rubber; sugar; spinach; and canned fruits and vegetables. The consumption of the following has been more or less stationary: kale, parsnips, and meats; while the consumption of wheat, potatoes, hay, and horses has declined. We can eat only a certain amount of food, and the wealthy man can eat no more than the workingman. What causes the demand for some products to increase? To decrease? To what extent can coöperative associations increase the demand for the products of their members?

CHAPTER 16

Marketing Grain and Livestock

Grain

Chief grains.—Wheat, rice, corn, oats, rye, barley, flaxseed, millet, and the sorghums are the world's most important grains. In most parts of the western world, wheat is the most important food cereal, while rice leads in eastern Asia. Corn, rye, barley, and millet are also important as human foods. Corn is the most valuable grain raised in the United States, but is used chiefly as stock feed. Other important forage grains are oats, barley, rye, and the sorghums.

Grain belts.—The chief grain belts of the world are: eastern and southern Asia, Europe, central North America, Argentina, and southeastern Australia. Wheat is grown in all of these areas. Rice is grown principally in Asia. Corn is grown in North and South America and in southeast Europe. Oats are important in both Europe and the United States.

Wheat.—Wheat is used largely for making bread and is the world's most important commercial grain. Europe is the largest producer and also the largest consumer. Western Europe, especially England, Belgium, and the Netherlands, does not ordinarily raise enough to satisfy its needs and is the leading importer. Central North America comes second as a producer and first as an exporter. Other important producing sections are Argentina, Australia, India, north Africa, and the Columbia River basin in eastern Washington and Oregon.

Kinds of wheat.—There are five important kinds of wheat: hard spring, hard red winter, soft winter, white, and durum. Hard spring wheat is high in gluten and its flour is prized for making loaf bread. It is also used for blending (mixing) with other wheats. Hard red winter wheat also makes excellent flour for loaf bread. Soft winter wheat makes flour used for quick breads and pastry, and is blended with harder wheat for making flour used in loaf breads. White wheat is used for bread and pastry flours and breakfast cereals. Durum wheat is used for making macaroni and spaghetti. It is high in gluten but has a yellowish color, for which reason it is shunned in the making of bread flour.

Production of wheat in the United States.—Our annual wheat crop has varied from 600,000,000 to 1,000,000,000 bushels and averages some 800,000,000. The limitation of acreage by the Agricultural Adjustment Administration and the drouth of 1934 reduced our production so much that we imported wheat in 1934, 1935, and 1936. We consume (in the form of food and seed) five bushels per capita, or a total of close to 650,000,000 bushels, per year. In normal years this leaves approximately 150,000,000 bushels for export. In some years our crop of spring wheat is too small for our needs, and we import some of this variety from Canada. In most years we export a part of our crop of the other varieties.

Wheat is grown pretty generally throughout the country except in the Cotton Belt, New England, and the arid sections of the Southwest. There are two main belts. One centers in central Kansas and spreads out into western Oklahoma, northern Texas, and southern Nebraska. This belt grows principally hard winter wheat. The other includes North Dakota, northeastern

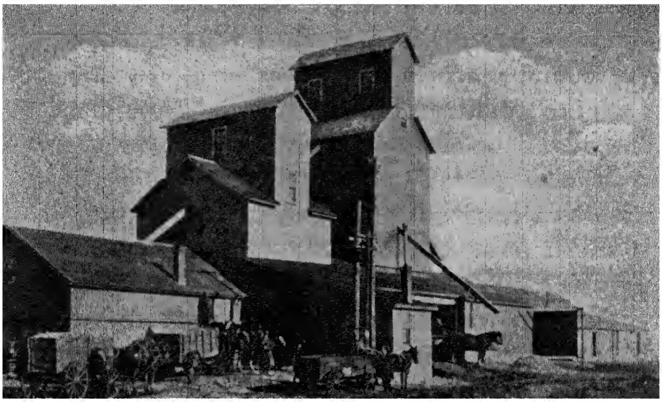
South Dakota, eastern Montana, and western Minnesota. This belt grows largely hard spring and durum wheats. There are three minor belts: (1) Illinois, Indiana, Ohio, and southern Michigan; (2) eastern Washington and Oregon; and (3) Maryland, southeastern Pennsylvania, and Virginia. Soft winter wheat is grown largely in eastern United States. White wheat is grown in New York and Michigan. Eastern Washington and Oregon raise hard red winter wheat, spring wheat, and white wheat.

The country marketing of wheat.—In the central part of the country, the country marketing of wheat centers about the elevators, which handle wheat in bulk. The elevator gets its name from an endless belt of scoops which carries the grain to the top of the building, from which point it is distributed by gravity into the storage bins. Wheat is handled in sacks and stored in warehouses in the eastern part of the country and on the Pacific Coast. The wheat is hauled to the elevators with horses and motor trucks. If motor trucks come into general use, the number of country elevators will probably decline.

For the most part, the elevators and warehouses are operated by dealers who buy grain from the farmers and sell to buyers in the central markets. The farmer may sell his grain as soon as it is threshed, or he may store it in his granary for an advance in price. He usually sells to the elevator operator for cash. At times he stores it in the elevator or warehouse and sells later. This is a common practice on the Pacific Coast. The charge for storage in the central states is ordinarily from ½¢ to 1¢ per bushel per month.[1]

[1] Occasionally the farmer contracts for the sale of his grain to an elevator before it is harvested. Some farmers sell their wheat to a

Types of elevators.—The elevators may be operated by independent concerns, by large companies operating a line (or chain) of elevators, by farmers' coöperative associations, or by millers. The independent, or individual, elevator is owned by a local concern which ordinarily operates only one elevator. The farmers coöperatively own some 3,000 elevators, which handle



Courtesy U. S. Dept. Agriculture.

Fig. 23.—Country elevator. Wagons are delivering corn. The grain is shipped on a railroad which is on the other side of the elevator.

approximately 35 or 40 per cent of the grain marketed.

Operation of elevators.—Privately operated elevators are in business for profit and try to buy the grain as cheaply as they can. The price they pay is based on the price in the central market to which they ship, the freight rate to this market, the competition which the elevator has to meet from other buyers, and its operating expense. The price in the central market is

local flour mill; some ship it to a central market and have it sold there; and some sell through coöperative associations which operate pools.

ascertained daily or hourly, and the freight rate to the central market is known. If the elevator is to stay in business, it must make enough money to cover these and pay its operating expenses. If there are several elevators at a shipping station or at adjacent stations, they may have to pay the full market price in order to secure the grain. On the other hand, if there is little competition, the elevator may be able to buy the grain at lower prices.

The price of grain varies with quality. The grade is determined by the elevator operator inspecting the grain to determine the amount of foreign matter, its specific gravity, the percentage of shrunken grains, and damage from heating.[2]

Sale of grain by elevators.—The country elevator consigns its grain to a commission man (called a "broker") in a central market who sells it on a commission basis or sells it outright to a grain merchant or to a manufacturer. More than two-thirds of the grain is consigned to "brokers," who receive and sell the grain. They deduct their commissions and the expenses of freight, inspection, and weighing, and send the balance to the elevator operators.[3]

Buyers in the central markets send out offers to the country elevators. These offers may be for grain "on

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[2] Complaints of improper grading are heard at times. There are two important complaints regarding proper grading: first, that the elevator operator pays all farmers the same price, thus penalizing the farmer with a high grade of grain; second, that the elevator operator undergrades the grain. He may promise a farmer $1 for No. 2 wheat. This may be a fair price. Yet when the farmer delivers the wheat, the elevator may say that it is No. 4 and pay only 96 cents. The farmer is often unable to tell whether or not his grain is properly graded.

[3] Very commonly the elevator ships the grain on an order bill of lading with a sight draft attached for some 75 per cent of the value on the day of shipment. In this case the "broker" deducts his expenses from the other 25 per cent.

track" or "to arrive." "On track" means that the price applies f.o.b. at the country shipping point, while a "to arrive" sale means that the country elevator must pay the freight to the central market.

Terminal marketing of grain.—The principal middlemen or institutions involved in the terminal marketing

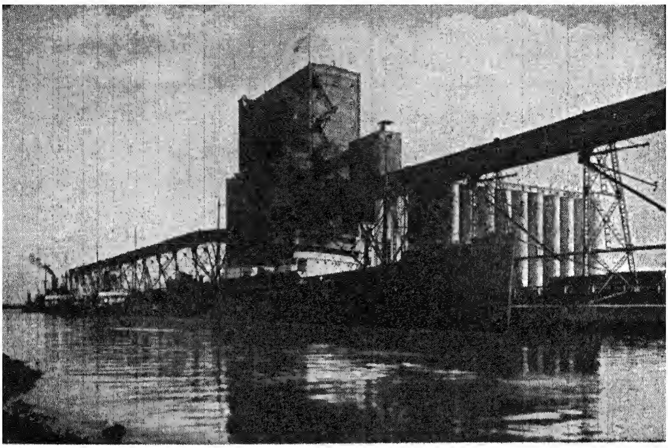

Fig. 24.—Terminal elevator. This particular elevator is located in a harbor where vessels are loaded for export. The grain is received by rail, and may be shipped by water or rail.

of grain are the grain dealers, brokers, coöperative sales agencies, terminal elevators, millers and other manufacturers, exporters, and the grain exchanges.

The grain dealer is often a merchant, a commission man, a broker, and sometimes an elevator operator. As a merchant he buys and sells grain on his own account. As a commission man he receives and sells grain on consignment. As a broker he negotiates contracts for the purchase or sale of grain for others. He buys from the country elevators and sells to terminal elevators, to millers, and to brokers representing millers, manu-

facturers, and exporters; he is often a member of the grain exchange and sells on the floor of the exchange.

The terminal elevators often buy grain for storage, hoping to sell it later at a higher price. They also store and condition grain for others for a fee. By "conditioning" grain is meant drying, cleaning, cooling, and bleaching. By mixing and conditioning, the grade of wheat is often raised. Some No. 2 wheat may be mixed with No. 1 wheat without lowering the grade of the lot to No. 2. Over a period of years, 46 per cent of the wheat received by a group of Chicago elevators was graded No. 1 and No. 2. Yet during this same period, 95 per cent of the wheat sold by these elevators was graded No. 1 and No. 2.

The operations of grain exchanges were discussed in Chapter 8.

The price of wheat.—The price of wheat is determined by the supply and demand throughout the world. The price received by American farmers may, in normal times, be affected more by the size of the crop in Europe than by the size of the American crop. The size of the crop in the European countries determines very largely how much wheat they will have to import. The surpluses for export in the United States, Canada, Argentina, Australia, India, North Africa, and Russia are also very important. The supply and demand factors center on the floors of the grain exchanges, notably those in Liverpool and Chicago, where the actual prices are determined. It has been said that if the world crop is 10 per cent below the average, the price will rise 15 per cent; whereas if the world crop is 10 per cent above the average, the price will drop from 9 to 12 per cent.

Cost of marketing wheat.—The price paid the farmer by the country elevator, according to a comprehensive

study, averages 77 per cent of the price paid by the mill, 44 per cent of the retail price of flour, and 13 per cent of the retail price of bread.

Production of corn.—The total value of our corn crop is larger than the total value of our wheat crop. The United States produces about 70 per cent of the world's corn, and our crop averages some 2,800,000,000 bushels. Corn requires a hot, moist climate during the growing season. It is grown generally throughout the country east of the Rocky Mountains. Production, however, centers in the Corn Belt, which includes Iowa, northern Illinois, northern Indiana, western Ohio, south western Minnesota, south eastern South Dakota, eastern Nebraska, and parts of Missouri, and Kansas. These states grow approximately two-thirds of our total crop.

Uses of corn.—Most corn is marketed on the hoof—that is, it is fed to livestock and reaches the consumer in the form of meat. Our corn crop is used approximately as follows:

	Per Cent
Fed to livestock on farms:	
Hogs	40.0
Horses and mules	20.0
Cattle	15.0
Poultry and sheep	5.0
Total	80.0
Fed to livestock off farms	5.5
Human food on the farms	3.5
Ground into meal	3.0
Starch, glucose, corn, sugar, etc.	2.0
Grits	1.0
Exported	1.5
Miscellaneous	3.5
TOTAL	100.0

It will be seen from these figures that more than 85 per cent of the corn is fed to livestock. The farmers in two sections sell corn: (1) eastern Illinois; and (2)

northwestern Iowa and eastern Nebraska. In other sections the farmers use their corn for feed and sell hogs or cattle. Some corn is exported by Argentina, the United States, and Roumania, principally to the countries of western Europe.

Price of corn.—Supply very largely determines the price of corn, and the supply depends upon the present crop plus the carry-over from previous years. The weather and the acreage planted very largely determine the size of a crop. A close relation exists between the rainfall in the Corn Belt during July and August (the growing season) and the price of corn. According to H. A. Wallace, it takes one inch of rain each ten days during July and August to hold the price of corn steady. If the rainfall is considerably above this figure, the price of corn will drop, while a deficiency in rainfall causes prices to rise. A corn crop 20 per cent above the average will reduce the price 20 or 25 per cent, while a crop 20 per cent below the average will raise the price some 40 per cent. A small crop thus has a total value larger than that of a large crop.

Coöperative marketing associations.—Approximately 3,000 coöperative country elevators, with a half million or more members, did a business of about $275,000,000 in 1933–34. The farmers' elevators do on the average a 50 per cent larger business than the privately operated elevators. This larger volume of business often gives the farmers' elevator a lower handling cost per bushel. These elevators try to help the farmers by efficient operation, fair grading of the grain, and the elimination of the private elevator's profit. An elevator can sell its grain immediately or hold it in storage and hedge against a drop in price. For these reasons, farmers' elevators often buy the grain outright from the farmers,

instead of handling it on a pooled basis. Many of the coöperative country elevators are, at this writing, affiliated with the Farmers National Grain Corporation, which is engaged in the terminal marketing of grain.

Livestock

Production of livestock.—The United States is one of the leading producers of livestock and one of the leading consumers of meat. We are second to India in the production of cattle; second to China in the production of hogs; and third in the raising of sheep, coming after Australia and Russia.

The number of the different kinds of livestock on American farms was as follows in January 1935: cattle, 61 million; sheep, 50 million; hogs, 37 million; and horses and mules, 17 million. The number of hogs was abnormally low because of reduction under the AAA program. In good years our farmers sell close to three billion dollars worth of livestock annually, excluding dairy and poultry products. The United States formerly exported large quantities of meat, but, as our population has increased, the export of meat has declined.

Consumption of meat.—The per capita consumption of meat in the United States in a recent year was 151 pounds, divided as follows: pork, 73 lbs.; beef, 51 lbs.; lard, 14 lbs.; veal, 7 lbs.; and lamb and mutton, 6 lbs.[4]

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[4] The consumption of meat varies somewhat from year to year with the supply and price. The demand for various kinds of meat varies somewhat between different racial, economic, and religious groups; different sections of the country; and different seasons of the year. Americans, Irish, Germans, Scandinavians, and Negroes are heavy pork eaters. Pork is typically the meat for the working group. The orthodox Jew eats no pork and only the forequarter of beef. Anglo-Saxons, Greeks, and Armenians are heavy consumers of mutton. Veal is popular with the Jews and Slavs. Fewer heavy cuts of meat are wanted for home consumption than a generation ago, owing to smaller families,

Livestock sections.—Some livestock is raised on almost all farms. The production, however, is much more important in some sections than in others. Beef cattle are important in practically all states west of the Allegheny Mountains, but Texas, Nebraska, and Iowa are the leading producers. Hogs are raised in practically all farming sections east of the Rocky Mountains, while small numbers are raised in the Pacific Coast states. Commercial production, however, centers in the Corn Belt. Nearly half of the hogs are raised in Iowa, Illinois, Indiana, Ohio, Missouri, and Nebraska. The hog is the most efficient meat producer among our animals. He requires only one-third as much food to produce a given number of calories of human food as the steer; but he needs concentrated food, and corn is especially adapted to his needs. He is not a range animal. Cattle, on the other hand, can be raised on land unsuited to cultivation. Sheep can eat shorter grass than cattle, can be raised on drier land, and are often grazed on the high and rugged mountains. They are important in Texas and in the Rocky Mountain and Pacific Coast states. They are also important in certain areas in the East, notably Ohio, southern Michigan, north central Kentucky, and southwestern Pennsylvania.

Concentration of livestock.—Livestock is concentrated at two points—in country shipping and concentration yards and in central markets. There is a considerable movement from one central market to another, and young and lean cattle are also shipped back to the farm from the central markets for maturing and fattening.

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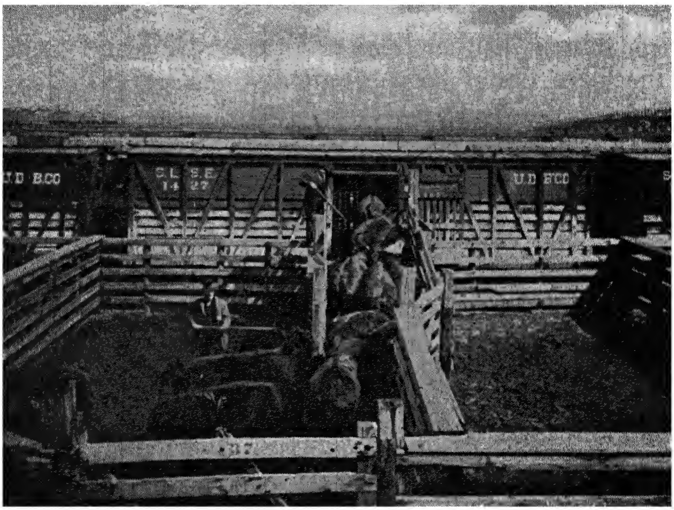
small apartments, and light housekeeping. Fewer heavy cuts are wanted in hot weather. Less beef and pork are consumed during the Thanksgiving and Christmas holidays, owing to the consumption of poultry.

The stock is brought to the country shipping station by truck or is driven in on foot, and it is transported from the country shipping station to the central markets by rail. A very large proportion is brought into the central markets by truck direct from the farms, thus eliminating assembling at country stations.



Courtesy U. S. Dept. Agriculture.

Fig. 25.—Loading stock into railroad cars for shipment.

Older methods of marketing livestock.—Before the building of the railroads, livestock was driven to market on foot, often for hundreds of miles; or was shipped by water. When the railroads were built, most stock was shipped by rail. Two types of middlemen came to operate at country stations to assemble and ship the livestock to central markets—private livestock buyers and coöperative shipping associations. The livestock buyer is in business for profit. He buys the stock from the farmers, drives or hauls it to the shipping station,

loads it into cars, and consigns it to commission men in the central markets who sell it to the packers. The coöperative shipping association operates in somewhat the same way, except that it acts as the agent for the farmer, and usually does not pay him until the stock is sold and the money received from the commission merchant. The purpose of the association is to secure higher prices for the farmers. The manager watches price movements and tries to pick advantageous times and markets in which to sell. When he feels it is a good time to sell, he consults his members, and if they agree a shipment is made. It is consigned to a commission man or to a coöperative commission agency. At one time there were 5,000 of these coöperative shipping associations—but with the increased use of motor trucks the number has declined to fewer than 1,500.

Newer methods of marketing livestock.—Changes in the method of marketing livestock came with the motor truck and with the packers' coming to buy stock in the country and shipping it direct to their plants.

Truck shipments.—At this writing, about three-fifths of the cattle, calves, and hogs are brought to the central markets by trucks. The trucks usually are loaded on the farms and bring the stock to central markets, where it is sold by commission men for the farmers. Trucking saves hauling the stock to country points and loading into cars, and it is often quicker than rail shipment, especially for distances under 200 miles. This means less shrinkage. On the other hand, truck shipments increase somewhat the marketing expenses in the central markets owing to the smaller lots in which the stock is handled.

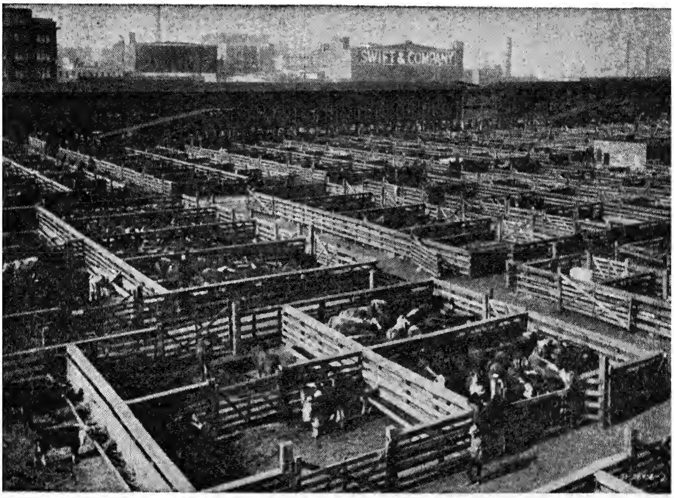
Concentration yards.—For long distances rail transportation is cheaper, while for short distances the truck

is cheaper. This fact has led to the development of concentration yards, at various country points, to which livestock is hauled by truck from one or more counties. The yards are operated by packers, coöperative associations, or private parties. The stock is sold by the farmer to the operators, except that the coöperatives often handle it on an agency basis. Shipment from these yards to central markets is usually made by rail. The development of these concentration yards seems logical, and they have continued to grow.

Direct marketing.—The large packers have had difficulty in securing enough stock in the central markets to enable them to operate their plants at capacity, because of competition with local packers who are closer to the sources of supply. To secure adequate supplies they send their buyers to the country to buy stock from farmers, independent buyers, and coöperative associations. This stock is often shipped direct to the packing plants—unloaded at their plants or handled through the stockyards. This is known as "direct marketing," and the animals are called "directs" when they reach the central markets. Direct marketing apparently reduces marketing cost somewhat, as it eliminates the commission man.[5] It has grown until something like one-half of the hogs, one-fourth of the calves, one-fifth of the sheep, and one-sixth of the cattle are shipped direct to the packers.

[5] It is argued, however, that the farmer who sells his stock to a packer in the country often receives a lower price than he would in a central market, owing to the farmer's ignorance of grades and prices and the absence of competitive bidding at many country points. On their side, some packers say that stock bought direct costs them somewhat more than stock bought in the central markets, for they pay a price in the country that is so near the city price that it does not allow for the full transportation cost.

Central markets.—When the stock arrives in a central market, it is unloaded in the stockyards, placed in pens, and fed and watered, unless it is consigned to packing plants which have unloading facilities. The stockyard operator charges for the use of his facilities and for the feed consumed.



Courtesy Swift & Co.

Fig. 26.—Stockyards in central market where livestock is received from the country and sold by commission men to packers. Sales are also made to yard traders, and to order-buyers for shipment to other markets.

Commission men.—The stock is ordinarily consigned to a commission agency for sale. There are two types of agencies: the private commission company and the coöperative commission company controlled by the producers. The commission man has charge of the stock and sells it for the account of the shipper. He pays the freight and other charges, deducts his commission, and remits the balance of the money received from the sale of the stock to the shipper. In 1934, there were 41

coöperative commission agencies, which did a business of $148,000,000. They generally charge the same rate of commission as the private agencies and return their profits to the shippers as patronage dividends. The commission companies have salesmen who are good judges of livestock and prevailing values. These salesmen follow prices closely from hour to hour, and they know the buyers for the packing plants. They often specialize, one man selling only one kind of stock, as fat steers, butcher cattle (lower grade animals), hogs, or sheep; they thus become experts in judging qualities and values. Even though the owner accompanies his stock to market, he usually has it sold by a commission man.

Buyers of livestock.—The livestock is sold to packers, to order buyers, and to yard traders.

Reshipment of stock.—Many of the consuming markets, especially those along the Atlantic Seaboard, do not receive enough livestock direct from the country shipping stations to supply their needs. The packers in these markets must therefore place orders with buyers in other markets and have the stock shipped to their plants. Much livestock is shipped from one market to another; for example, East St. Louis, Chicago, Sioux City, and Omaha ship a considerable portion of their hogs to other markets. The buying to fill these orders is done by order buyers—men who specialize in this work—or by the buying departments of commission companies. Some livestock is shipped from primary markets to farmers for fattening or further growth. These are known as feeders and stockers.

Yard traders.—Yard traders, also called scalpers and speculators, buy stock from the commission men and sell to the packers and order buyers through the com-

mission men. They buy when they think prices are going to rise and hold the stock a few days hoping to make a profit from higher prices. Hence the name "speculator." [6]

The yard traders also perform a grading function. The packers prefer to buy stock in lots of the same quality. Many mixed cars containing different kinds or grades of stock are received at the markets. The yard traders often buy these mixed cars and re-sort the stock into lots of uniform quality.

Cost of marketing.—The typical consumer's dollar spent for meat is divided as follows: to the farmer, 50¢; for marketing livestock, 10¢; to the packer, 20¢; and to the retailer, 20¢.

Prices.—The price of livestock depends upon demand and supply. The demand for livestock is determined by the demand for different cuts of meat and for the different by-products. The demand varies somewhat with fashion, price, and prosperity, but the demand is much more stable than the supply. The supply varies over a period of years with price. When prices are high the producers raise more stock; when the prices are low they raise less stock. In the past this has given rise to a more or less definite series of cycles. The cyclical movement of supply and prices will be illustrated by prices of corn and hogs.

Corn-hog ratio.—Hogs are fed largely upon corn. Since it takes about 11.5 bushels of corn to put 100 pounds of weight on a hog, there is a more or less definite relationship between the price of corn and the price of

[6] Their existence is partially explained by the uneven receipts of stock on different days of the week. These receipts are much heavier during the first part of the week than during the latter part of the week.

hogs. Over a 50-year period, the price of 11.3 bushels of corn has equalled the price of 100 pounds of live hog at Chicago. The ratio between the price of corn and the price of hogs, however, varies widely from time to time. At one time the price of 7.4 bushels of corn has equalled the price of 100 pounds of hog, while at another time it has taken 16.5 bushels of corn to equal the price of 100 pounds of hog.

The relationship between the price of corn and the price of hogs is called the *corn-hog ratio.* If the price of corn is high relative to the price of hogs, the farmers want to sell corn, as it is worth more on the market than as hog feed. Conversely, when the price of hogs is high relative to the price of corn, the farmer prefers to sell hogs.

The corn-hog ratio indicates whether it is more profitable to sell corn or hogs. If the ratio is below the average, there is more profit in corn than hogs; if the ratio is above the average, it is more profitable to feed the corn and sell the hogs. The average monthly ratios should be watched carefully by hog raisers. The average monthly ratios for a 50-year period are as follows:

January	11.8	May	10.9	September	11.3
February	12.4	June	10.9	October	11.2
March	12.3	July	11.0	November	10.5
April	11.8	August	10.9	December	10.9

Thus if in November the price of corn is 80¢ and the price of heavy hogs is $9.25 (Chicago prices), it is more profitable for the farmer to feed his corn to hogs and sell the hogs. On the other hand, if the price of corn is 80¢ and the price of hogs $7.75, it is more profitable for the farmer to sell his corn.

Use of corn-hog ratio.—In order to have hogs to sell when hogs are profitable and corn to sell when corn is profitable, it is necessary to forecast prices. It takes something like a year to raise pigs and have them fattened for the market. Prices must, therefore, be anticipated by a year or more.

One authority gives this advice: When the corn-hog ratio has been below the average for several months or a year (say 6 to 15 months), the farmer should raise more pigs. When the corn-hog ratio has been above the average for several months or a year, he should reduce the number of pigs.

The farmer is advised to increase his production of pigs when hogs are less profitable than corn and to decrease his production of pigs when hogs are more profitable than corn. The advice is based on the assumption that, when corn is high relative to hogs, most farmers will cut down the number of hogs raised so that they can sell more corn. This will mean that within about a year the ratio will change. On the other hand, when corn is cheap relative to hogs, the assumption is that most farmers will increase the number of pigs. When this extra supply of pigs reaches the market, the price will drop. The farmer is thus advised to increase production when prices are low and to decrease production when prices are high. The individual farmer thus attempts to follow a course opposite that followed by the majority of farmers. This advice appears to be good as long as the majority of farmers act as expected. If, however, the majority of farmers should follow this advice, prices would not move as anticipated, and the advice would no longer be good. A new method of forecasting would be needed.

Chapter 16

Review Questions

1. What are the world's principal grains?

2. Where are the world's main grain belts?

3. Locate the main wheat belts of the world.

4. What are the different kinds of wheat? Where is each kind grown? What are the uses of each kind?

5. What position does the United States occupy in the production of wheat? In the export of wheat?

6. Where are the leading wheat-producing sections in the United States?

7. How is wheat marketed at country points?

8. What are the various types of country elevators?

9. How is wheat graded at country points?

10. How does the country elevator sell its grain?

11. How is grain marketed in terminal markets?

12. What services do the terminal elevators perform?

13. What factors influence or determine the price of wheat?

14. What position does the United States occupy in the production of corn?

15. What are the chief uses of corn?

16. How is corn marketed?

17. What determines the price of corn?

18. How important are farmers' elevators? How do they operate?

19. How does the United States rank in the production of livestock?

20. Locate the main producing sections (U. S.) for beef cattle and for hogs.

21. What are the differences in the conditions under which hogs, cattle, and sheep are raised?

22. How is livestock transported to country markets? To central markets? What are concentration yards? Why have they developed?

23. How is livestock marketed at country points?

24. What functions are performed by livestock buyers and shippers?

25. What is meant by "direct marketing" of livestock? Why is stock marketed in this way?

26. How is livestock marketed in central markets?

27. How do commission companies operate? What functions do they perform?

28. What is meant by order buying?

29. What are stockers and feeders?

30. What are yard traders? What functions do they perform?

31. What is the corn-hog ratio?

32. How can the corn-hog ratio be used by the farmer?

33. If No. 2 corn is 40¢ and heavy hogs are $5.60 in Chicago, what is the corn-hog ratio?

34. What determines the prices of livestock?

Thought Problems

1. The United States has a tariff on the importation of wheat. This law was enacted to help the wheat farmers. Does it help them? Why or why not? Can our grain farmers secure higher prices through tariffs?

2. If a farmers' coöperative elevator undergrades the grain purchased from its members, are they injured by such action?

3. Americans consume very little rice. Why? Would a larger consumption benefit the growers? Could the rice growers induce the consumers to eat more rice? If so, how? If not, why?

4. What functions are performed by country elevators?

5. Can the livestock producers increase the consumption of meat?

6. What effects do the following have on the demand for various kinds of meat: Smaller families? Women working for wages outside of the home? Small apartments? Increase in the purchase of ready cooked foods? The increasing habit of eating in restaurants? The continued substitution of power-driven machinery for human muscle? The prevailing fashion for figure, e. g., to be slender or stout?

7. (a) If corn is 50¢ and hogs are $6.00 in November, is it more profitable to sell corn or hogs? If the ratio remains at this point for more than a year, what should the Corn Belt farmer do?

(b) If corn is 60¢ and hogs are $5.00, what is the corn-hog ratio? If the ratio remains at this point for months, what should the Corn Belt farmer do?

CHAPTER 17

Marketing Dairy Products

Value.—The dairy cow is the greatest producer of wealth on American farms. The 25,000,000 dairy cows in the country produce over 100 billion pounds of milk annually, which, with the products made from it, normally has a value of over $2,000,000,000. The milk is consumed approximately as follows:

	Per Cent
Fluid milk	47
Butter	36
Ice cream	4
Cheese	3
Condensed milk, powdered milk, casein, milk chocolate, etc.	4
Fed to calves and wasted	6

Perishability.—Fresh milk is perishable and must be consumed promptly or manufactured into butter or other products. Butter can be kept at very low temperatures and can therefore be stored for considerable periods with little deterioration. Consumers make little distinction between fresh and storage butter, for which reason the price of butter fluctuates less than that of many other perishable products.

Production.—Milk is produced on the great majority of the farms. On specialized dairy farms milk is the chief product sold, but a very considerable portion of the milk and cream of the country is produced on farm' 'hich raise other products. Milk and cream must

be assembled from over wide areas, and their perishability makes it necessary for them to reach the market promptly. Milk is produced the year around, but production is much higher in the spring and summer than in the fall and winter, shipments being 30 to 60 per cent higher in July than in January.

Demand.—Most consumers want about the same quantity of milk and butter each day. Price affects demand, especially the demand for butter.

Marketing fluid milk.—The perishability of milk leads to a large production near the market. So we find a large number of dairy cows near large cities, particularly in the North Atlantic states, to supply the large populations of the eastern cities.

Concentration of milk.—Milk is transported by truck from the farm to the city milk plant or to the country receiving station. The use of trucks has lessened the need for country stations, as milk is often hauled direct from the farms to city milk plants for distances of 50 miles and more. Country receiving stations are, however, still important in the outlying portions of the producing areas. The milk is cooled in these stations and transported to the cities by rail or in insulated tank trucks. Some country stations pasteurize and bottle the milk.[1] Cream has a higher value per pound than milk and so is transported for greater distances. Boston, for example, receives cream from states as far distant as Michigan and Tennessee.

The city milk distributors usually buy the milk from the farmers and have it hauled to their plants, although some farmers deliver it themselves. At times coöperative associations or private buyers receive the milk from

[1] One large chain store, for example, has its milk pasteurized and bottled in the country, so that no city milk plants are needed.

the farmers and sell it to the distributors. In the marketing of sweet cream, creameries, brokers (sales agents), and wholesalers operate in the marketing process.

Dispersion of milk.—Milk is sold to the consumers by milk dealers, retail stores, farmers, and coöperative associations. The milk dealer often buys the milk from the farmer, pasteurizes and bottles it, and delivers it on the consumer's doorstep. He often supplies stores, restaurants, hotels, hospitals, soda fountains, and ice cream manufacturers. Some milk is also sold to "sub-dealers" who deliver it to the consumers. The consumer usually buys his milk from a dealer or a store, so that only one or two middlemen are involved. If he buys from the farmer, no middleman is involved.[2]

Coöperative associations.—There are approximately 185 coöperative associations, with a membership running into the hundreds of thousands, interested in the marketing of fluid milk. There are two types of associations: bargaining and operating. The bargaining association represents the farmers in negotiating prices and terms with the dealers, but it does not handle the milk, which is delivered to the dealers, and the farmers receive their pay from the dealers. The bargaining association may be compared to brokers who negotiate sales contracts with buyers, or to labor unions which negotiate wage scales with the employers. In addition to negotiating prices and terms, the association may guarantee payment by the dealers, may audit the dealers' books to see that full payment is made, may check the dealers' butter fat tests, and may organize and supervise the operation of pools. In 1933 there were 80 bargaining

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[2] Three, or even four, of the following middlemen may, however, be involved: the coöperative association or country buyer, the broker, the dealer, the sub-dealer, and the restaurant or store.

associations which were responsible for the sale of $131,000,000 worth of milk.

Operating associations, on the other hand, actually handle the milk, selling it at wholesale to dealers or at retail to the consumers. They may sell all the milk to the dealers; may sell a part to the dealers and have their own plants for manufacturing the surplus; or may sell the surplus to manufacturers. In 1933 there were 105 operating associations, with sales totaling $81,000,000.

Price.—Milk is the only major farm product that has a controlled price.[3] The prices of most farm products are determined on open and free markets by supply and demand. This is true of butter but not of fluid milk, the price of which is often determined by agreements between milk dealers and coöperative associations. In the depression of the early 1930's, the purchasing power of the consumers was so low that the price of milk was forced down in some markets until it cut into the profits of the dealers and farmers. In several states, milk boards were established at the request of the producers and dealers in the hope that they would raise prices and prevent price cutting. In some states these boards are given the right to fix prices and to examine the dealers' books. These states apparently consider the milk business a public utility and intend to regulate it accordingly.

In order to control the price of milk, it is necessary to control the supply. This is attempted by the classification and base-surplus methods of paying the farmers, which are discussed below. Under the base-surplus plan, the farmers' sale of milk on the fluid market may be limited to the amount of his base or quota. At times

[3] Aside from price control by the government.

producers have not been allowed to increase their bases, and bases have been refused to new producers. Expensive fixtures and equipment have also been required of the producers in some markets in the hope of forcing small producers off the market and preventing new producers from entering the market. Boards of health and milk boards have at times been induced to undertake the enforcement of such regulations. Reasonable sanitary regulations are desirable to protect the health of the consumers, but the regulations in force in some markets cannot be justified by this reason.

In considering the price of milk, we should remember two factors: first, the seasonal variation in production, commonly called "the surplus problem"; and second, the fact that the price of fluid milk is often higher than its value for manufacture into butter or other products.

Basis of paying farmers: *Flat price.*—The dealers may pay the farmers a flat rate for their milk—so much per 100 pounds or per quart. The dealers may buy only enough milk to supply their customers. If they buy more than this amount, the price paid the farmers will be based on the average price received for fluid milk, cream, and manufactured products. This is the simplest method of paying the farmers and many farmers prefer it for this reason. This plan, however, does not encourage the farmer to produce an even supply throughout the year, since he is not penalized for a low production in winter and since he receives the specified price for heavy production in summer.

Classification plan.—The dealers often buy more milk than they are able to sell in fluid form. The surplus may be sold as cream or may be manufactured into ice cream, cheese, or butter. Milk is worth different prices for each of these uses. Instead of paying the farmer

a flat rate based on the average price received, the dealer often pays the farmer a different price for the amount used in different ways. This is known as the classification, or use, plan. A dealer may sell 60 per cent of his milk as fluid, sell 10 per cent as cream, and manufacture 30 per cent into butter. The price agreed upon for fluid milk (Class I) may be $2.50 per 100 lbs., the price for cream (Class II) $1.50, while the milk may be worth $1.00 for butter making. If a farmer delivers 10,000 pounds of milk during a given month, he will receive $2.50 per 100 lbs. for 6,000 pounds; $1.50 per 100 lbs. for 1,000 pounds; and $1 per 100 lbs. for 3,000 pounds; or a total of $195. This is an average, or blended, price of $1.95 per 100 pounds.

The advantage claimed for this plan as compared with the flat price is that the farmer knows that if he increases his production he will receive a lower price for the additional amount. The plan thus attempts to limit the supply. The farmer, however, bases his operations upon the average (blended) price received. If this is above the cost of production, he will increase his output. This gives the dealers more surplus, which, it is argued, they are in a poor position to handle as compared with specialized manufacturers. It also increases the production of milk used in making butter in areas near large cities, where costs of production may be higher than in other sections of the country. In order to maintain the average price at a profitable level, the marketing association often tries to boost the price of milk for the fluid market as high as the traffic will bear—that is, to the level of a monopoly price.

The farmers often dislike the classification plan because they do not know in advance how much they will receive for their milk. They must also trust the dealer's

honesty for proper payment, unless the coöperative association audits his books. This may be important, since it is highly profitable for the dealer to pay for milk in a lower class than that in which he uses it.

Base-surplus plan.—The base-surplus plan was adopted to induce the farmer to even up his production throughout the year. Under this plan each farmer is given a base, or quota. The base may be his average production during the months of October, November, and December (often the months of lowest production). For the basic quantity produced the farmer is paid the fluid, or Class I, price, while he receives a lower price for the surplus. This is a direct inducement to even up the supply throughout the year in order to receive the higher price for all of his milk, and the plan has been successful in getting the farmers to do this.

As the Class I price has often been above the cost of production, the base-surplus plan has not limited the supply to the needs of the fluid market. For this reason, the plan has been combined with the classification plan in many markets. Under the combined plan the farmer is paid for his base milk according to the use to which it is put; that is, the farmer may not receive the Class I price for all of his quota. As different farmers produce different percentages of their bases, the average price paid to different farmers selling to the same dealer varies. This makes a very complicated system—too complicated for the farmers to understand and too complicated to try to explain here.

High prices.—From the above discussion it is clear that the milk producers through their associations have often tried to secure high prices for their milk—in some instances all the "traffic would bear," or monopoly prices. In some cases where the dealers have refused price

increases, "milk strikes" have been called. As milk is perishable and the cities have little milk in reserve, the farmers have often been given higher prices for their Class I milk. However, canned milk has just as high food value as fluid milk, and reconstituted milk can also be made from skim milk powder and butter, which, we are told by experts on foods, is just as nutritious as fresh milk. Milk can now be transported for hundreds of miles in insulated tank cars. These factors may, in the future, seriously limit the power of farmers near large cities to secure high prices for their milk.

Proper price basis.—It would seem that the price of milk sold upon the fluid market should be based on the price of butter,[4] with a sufficient difference to cover the extra costs of special care and handling and of the equipment required to meet city health requirements, and to cover the value of the skim milk which leaves the farm.

Other factors.—The price paid the farmer is usually based on milk with a specified percentage of butterfat, perhaps 3½ per cent. The farmer is paid a premium for excess butterfat, while a deduction is made for a deficiency. The farmer may receive a premium for producing milk which has a very low bacterial count (grade A).

The consumer.—The consumer wants safe milk at a reasonable price. Milk is often tested for percentages of butterfat and examined for the number of bacteria. The cows are often tested for tuberculosis and other diseases, and the barns and plants are inspected for

[4] Some feel that the price paid for milk by condenseries would be a better guide.

cleanliness. In some markets, inspection by the health departments is strict, while in others, there is little or no inspection. The consumer's main protection against a high price has been competition among farmers and distributors. His weapon is reduced consumption when the price seems too high.

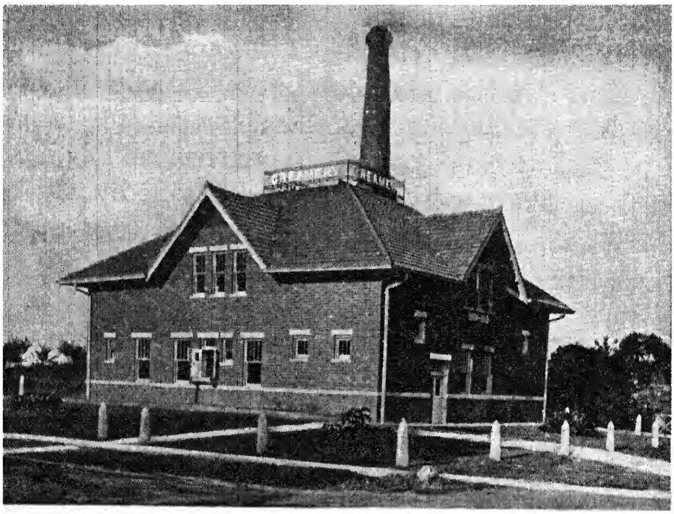
Cost of marketing milk.—Milk must be kept cool, moved quickly, and delivered to the consumers in small quantities. On the other hand, it is marketed regularly during the year, which means that distributing facilities can be steadily employed. The farmers generally receive something like one-half of the price paid by the consumers. Figures showing the cost of marketing milk in four cities follow:

	Chicago	*St. Louis*	*Peoria*	*Quincy*	*Average*
Farmer received	45.7¢	51.4¢	65.9¢	69.2¢	46.9¢
Purchasing, receiving, and processing	15.2	10.8	16.3	12.3	14.9
Selling and delivering	32.1	29.9	9.9	12.5	31.2
General and administrative	3.5	2.8	6.2	3.2	3.6
Dealer's profit	3.5	5.1	1.7	2.8	3.4
Consumers pay	100.0¢	100.0¢	100.0¢	100.0¢	100.0¢

It will be observed that the marketing cost was higher in the large cities than in the small cities. This may be due to the higher wage scales, the greater distances that milk must be transported, and the larger areas over which it must be delivered. The consumers in the smaller cities often receive their milk at lower prices than those in the large cities.

Marketing butter.—There are two kinds of butter: farm butter and creamery butter. Farm butter is made on the farm and consumed to a large extent on the farm. One-fourth of the butter is made on the farms,

but only ten per cent of the butter upon the market is farm butter. It is sold for local consumption by the farmer, delivering to the consumer or selling to the local grocery store, or to produce dealers. The produce dealers ship some of it to the city markets in barrels.



Courtesy U. S. Dept. Agriculture.

Fig. 27.—A small creamery located in the dairy country. A large portion of our butter is made in such creameries.

More than one and a half billion pounds of creamery butter are manufactured annually by nearly 4,000 creameries. Approximately one-third of the creameries, marketing 35 per cent of the creamery butter, are coöperatively owned by the farmers. The Middle West is the leading butter-producing section, with Minnesota, Iowa, and Wisconsin the most important states. Large amounts of butter are also produced on the Pacific Coast.

Creameries are of two kinds: small local creameries, drawing their milk or cream from nearby farmers; and

large creameries, or centralizers, which draw their cream from large areas, sometimes for hundreds of miles. To assemble cream from large areas, cream station middlemen are necessary. Most cream stations are agents for the centralizers, but about 10 per cent are independent dealers. They buy cream from the farmers, test (grade) it for butterfat and acidity, pay the farmers, and ship it to the creameries.

Trade channel for butter.—Butter sent to the large cities is generally shipped by the creamery to a wholesale dealer, to a commission man who sells it on a commission basis, or to the creamery's branch house.[5] The broker may be used as the salesman. The wholesalers sell to jobbers, chain stores, large hotels, and other large buyers; the jobbers sell to the small retailers and restaurants. Many wholesale receivers are also jobbers. Many of the large centralized creameries have their own branches, in the larger cities, which they operate as wholesale houses. Many of the coöperatives sell through federated sales agencies. Butter made by city milk dealers is often sold direct to the consumers from their wagons.

Cost of marketing butter.—The cost of marketing butter is relatively smaller than the cost of marketing most farm products. It is a staple product in regular demand and it can be stored to prevent spoilage. For these reasons, dealers can handle it on narrow margins. Transportation costs, likewise, take a relatively small part of its value. The farmer receives about two-thirds of the retail price paid by the consumer.

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[5] In 1929 creameries sold their butter as follows: to wholesalers, 39.6 per cent; to manufacturers' branch houses and federated sales agencies, 22.5 per cent; to retailers, 22.8 per cent; to consumers, 10.2 per cent; to restaurants, hotels, etc., 2.6 per cent; and to manufacturers' retail stores, 2.3 per cent.

Chapter 17

Review Questions

1. What characteristics of dairy products affect the methods used in marketing them?

2. To what extent are the following products adapted to storage: fresh milk? condensed milk? powdered milk? butter?

3. Where are the principal producing areas in the United States for milk? butter?

4. What can you say of the demand for milk? For butter? How is the demand affected by changes in price?

5. How is milk transported to market?

6. What is the trade channel for milk?

7. What types of coöperative associations are engaged in marketing fluid milk?

8. How does the bargaining association operate? What marketing functions does it perform?

9. What functions do operating associations perform?

10. Describe the classification plan.

11. Describe the base-surplus plan.

12. What is the object of these plans? Have they been successful in attaining their objective?

13. What is meant by saying that milk has a "controlled price"?

14. How do the producers attempt to secure monopoly prices?

15. How are the consumers' interests guarded in the purchase of milk?

16. What can you say of the cost of marketing milk? What factors contribute to a high cost? What factors contribute to a low cost?

17. Why does it cost more to market milk in a large city than in a small city?

18. What are the two kinds of butter? What are the two types of creameries?

19. Where are most of the creameries located?

20. How do centralizers obtain their cream?

21. How is butter marketed?

22. How do you explain the relatively low cost of marketing butter?

Thought Problems

1. The Sunny Valley Milk Producers Association employs a base-surplus plan. Each farmer names the amount of milk he will deliver daily during the life of his contract. For this amount he receives the fluid milk price. For all milk over this quantity he receives a price based on the Chicago price of 92 score butter. If he delivers less than the stipulated amount, he receives the base price for the amount delivered less a deduction equal to the amount of shortage multiplied by the difference between the base price and the price of milk for manufacture.

George Jones agrees to deliver 100 pounds of milk a day, or 3,000 pounds a month. During the following June, the base price of milk is $2.50 per 100 pounds and the surplus price is $1 per 100 pounds. During this month, Jones delivers 5,000 pounds. How much will he receive for his June deliveries? What is his average price per 100 pounds during June?

2. The milk producers at Empire City operate under a base-surplus plan. The basic quantity is the average amount delivered during October, November, and December. This price is $3 per 100 pounds. For a surplus over this amount equal to 50 per cent of the basic quantity, the farmer is paid a lower price based on sale as cream. This price is $2 per 100 pounds. For the "second" surplus over this amount, the farmer is paid a lower price based on the use of the milk for manufacturing purposes. This price is $1.25 per 100 pounds.

William Brown delivers an average of 4,000 pounds monthly during October, November, and December. During February, he delivers 4,500 pounds and during May he delivers 7,000 pounds.

How much does he receive for his milk in February? In May? What is the average price in each month?

Chapter 18

Marketing Cotton

Consumption.—Cotton has supplied a large part of the clothing for the world's population since the introduction of the cotton gin. The short fibers (linters) removed from the seeds are used as a raw material for making rayon and other cellulose products; cotton seed is used for making cooking fats and oils; and the meal which is left is used for feeding livestock. Other products of the fiber include tires, bags, rope, twine, tents, and awnings. In the United States the demand for cotton for clothing is affected by two factors: first, we wear less clothing than a generation ago, because of better heated buildings; second, silk and rayon have come into general use, especially in women's clothing.

Cotton is grown entirely for the market, the farmer consuming none on the farm. Cotton is our most important commercial farm crop. More than one-half of the crop was exported before the recent depression and the curtailment of production by the Agricultural Adjustment Administration.

The cotton mills that spin the cotton into thread are the first consumers. Most of the American mills are located in the Piedmont sections of North Carolina, South Carolina, Virginia, and Georgia, and in southern New England. The southern mills consume more cotton than the northern mills. Foreign mills are located principally in western Europe, Japan, and India, although some other countries have important mills.

Demand.—The demand for clothing is fairly steady. People may economize and wear their old clothes in times of depression and unemployment; yet in such times the desire for economy may also cause them to buy cotton garments rather than ones made of more expensive materials.

Production.—The United States is the largest producer of cotton, growing about one-half of the world's crop. In 1930–31 we produced 54 per cent of the world's crop, while in 1934–35, under the curtailment program of the Agricultural Adjustment Administration, we produced only 42 per cent. The increase in price resulting from our curtailed production increased production abroad. In the first two years of the AAA's activity, our annual crop declined over four million bales, while the production in other countries increased over one million bales; our acreage was reduced from around 40,000,000 to under 30,000,000. Other producing countries are India, China, Egypt, Asiatic Russia, Brazil, Mexico, and Peru. The Cotton Belt in the United States extends from Norfolk, Virginia, southwest to Texas and Oklahoma, and northward in the Mississippi Valley to the mouth of the Ohio River. Smaller belts are found in New Mexico, Arizona, and California. The annual crop in the United States varied from 9 to 18 million bales and averaged about 15,000,000 bales prior to the curtailment under the Agricultural Adjustment program.

Cotton has always been grown on a relatively small scale because of the large amount of hand labor required to pick the lint from the stalks. Cotton production has recently spread into western Texas, however, where it is planted and cultivated with machines; and much of it is picked by snapping the bolls from the stalks with gloved hands, by pulling them off by sleds with wooden

strips nailed close together on the front, or by picking machines which are beginning to be used. Modern gins can separate the lint from the hulls, leaves, and trash, which are gathered by snapping and sledding, although the lint may be of poorer grade than when picked by hand.

Financing the growers.—Cotton is the main money crop in many portions of the Cotton Belt. If the crop is large or the price high, the growers may be prosperous, while if the crop is poor or the price low, "hard times" result.

Many of the farmers, especially the colored tenants, must be financed during the growing season. Local storekeepers and banks often loan money on the security of the cotton crop. From one-third to one-half of the value of the crop is often advanced to the growers during the growing season. The local merchant often advances food and other necessities needed by the family during the growing season and takes a lien on the crop. When the crop is harvested, it is delivered to the merchant to pay the debt, any surplus being paid for in cash. Under this system the local merchants are important in the marketing of cotton. The large planters are often financed by the banks or by cotton factors, who are described in a later paragraph.

The government-owned intermediate-credit banks make loans to coöperative associations and also discount farmers' notes. In this way they help to finance the growing and marketing of cotton and other crops.

Kinds of cotton.—There are three kinds of cotton: Upland, Egyptian, and Sea Island. Upland cotton is divided according to the length of the fibers into short staple, having fibers from $5/8$ to 1 inch long, and long staple, having fibers from 1 to $1\frac{1}{2}$ inches long. Most

of the American crop is less than one inch in length.[1]

The grading of cotton is known in the trade as "classing" and is done from samples taken from the bales. Cotton bought from the farms varies widely in quality. The mills want cotton of uniform quality, which means that cotton must be graded and arranged in even running lots somewhere between the farm and the mill.

Price.—The price of cotton depends upon the supply, the general level of prices, and the demand. The demand is fairly steady. The United States is the greatest producer of cotton, so a relationship can ordinarily be found between the supply in the United States and the price. The supply depends upon the size of the growing crop and the carry-over from past years. According to a government estimate, a crop of 12,000,000 bales would have (at the 1926–27 price level) a price of 30 cents a pound, or a total value of $1,700,000,000; while a crop of 18,000,000 bales would be worth only 15 cents a pound, or $1,300,000,000.

Country marketing of cotton.—The farmers sell their cotton to local storekeepers, to interior or local cotton buyers, to the road buyers of cotton merchants, to mills, to gins, through factors, and through coöperative associations. Before it is ready for the market, the cotton must be ginned.[2]

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[1] The quality of cotton depends upon the length of the fiber, color, foreign matter, and its spinning properties. The United States Department of Agriculture divides cotton into 17 lengths and into 7 colors: white, yellow tinged, yellow stained, blue stained, spotted, light stained, and gray. Nine grades of upland cotton are established from No. 1 to No. 9. Each grade also has a name. No. 1, for example, is known as Middling Fair, No. 2 as Strict Good Middling, No. 3 as Good Middling, No. 4 as Strict Middling, No. 5 as Middling, and so on. Linters are the short fibers removed from the seeds.

[2] Ginning is, strictly speaking, a part of production, but it is commonly considered a part of marketing, since the farmer thinks of his cotton as ready for the market as soon as it is picked.

The cotton gin.—The cotton gin separates the seed from the lint, cleans the lint to some extent, and places the lint in bales. About two-thirds of the weight of the cotton as picked consists of seeds and about one-third of lint. The gin operator ordinarily buys the cotton seed from the farmer and supplies the bagging and bands

Fig. 28.—A cotton gin. Wagons are bringing in seed cotton, and a number of bales of ginned cotton are waiting for the owners.

used in baling the cotton. Present gins cost so much that few growers own their own gins, and most of the gins are operated on a custom basis, the operators charging by the hundred pounds for ginning the cotton. The farmers bring the loose cotton to the gin in wagons or trucks. The cotton leaves the gin in bales, which commonly have a density of 12½ pounds per cubic foot and which contain 478 pounds of cotton and 22 pounds of bagging and ties (steel bands). Cotton for export or storage is often compressed into bales with a density of 24 to 35 pounds per cubic foot.

Country buyers.—The most numerous country buyers are the storekeepers and the interior buyers. The local storekeepers take cotton in payment for goods which they have sold to the farmers on credit, and they also buy cotton for cash. The interior buyers are local dealers in cotton.

There are many grades of cotton, yet the local buyers often pay the same ("hog round") price for all cotton grown in their communities. This penalizes the farmer with a good grade and does not encourage the farmers to raise a good quality of cotton. The local buyers usually sell their cotton to road buyers of cotton merchants, or through cotton factors in the primary markets.

Farmers living near cotton mills at times sell some of their cotton to the mills, delivering the bales on the mill platforms. The gins buy some cotton from the farmers. This is especially true in Oklahoma.

Factors.—A factor is a commission merchant. He receives cotton on consignment from cotton planters and local buyers, and sells it on a commission basis for the account of the owner. The factor receives and inspects the cotton and places it in a warehouse. It is kept in storage until the owner orders it sold, but the owner often follows the advice of the factor as to the best time to sell.

The cotton is sold by samples to merchants, mills, and exporters. When the cotton is sold, the factor remits the amount due to the owner with an "account sales" showing the price received and deductions for freight, storage, interest, and commission. The factors in one town charge a commission of 2½ per cent of the price received, and in another town, $1.25 a bale.

The advantages of selling through a factor are: selling in a large market, securing the services of an experienced salesman, obtaining the advice of the factor as to

the best time to sell, and securing financial assistance. The factor advances a considerable portion of the value of the cotton when it is received, and the owner may hold it for an advance in price if he feels the price to be too low at the time of shipment. The factor may also make advances during the growing season to reliable planters. On the other hand, the factors have at times been criticized for some of their charges. Some people also question the need of a factor between the local buyer and the cotton merchant.

Cotton merchants.—Cotton merchants are wholesale dealers who buy from local buyers, large planters, factors, and others, and who sell to cotton mills or to dealers. The cotton merchants send their buyers on the road, and they usually buy in lots of 100 bales or more, but occasionally they buy smaller lots, at times buying a single bale from a farmer.

The mills want to buy cotton in lots of 50 or more bales of uniform quality. This necessitates a grading or rearrangement of cotton between the local buyer and the mill; therefore the cotton is often concentrated by the merchants in primary markets, where it is graded and shipped to the mills in even running lots.

Most of the cotton is sold by the farmers in the fall and early winter, while the mills consume it more or less evenly throughout the year. Cotton must therefore be stored—a function often performed by the cotton merchant. To shift the risk of a price decline while in storage, the cotton may be hedged—sold for future delivery on the cotton exchange. The important functions of the cotton merchant are buying, assembling, grading, storing, risking, financing, and selling.

Coöperative marketing associations.—The coöperative marketing of cotton has had considerable growth,

and, at present, approximately 250 associations market about 15 per cent of the crop. The more important associations are of the centralized commodity type: the farmer joins the central organization and signs a contract for the association to market his cotton. The objectives of coöperative marketing are to improve the methods of producing and marketing cotton, and to secure higher prices for the farmers by reducing marketing expenses and by orderly marketing.

Reducing marketing expenses.—Coöperative associations attempt to reduce marketing expenses by reducing the number of middlemen who handle the cotton; by lessening damage to the cotton at country points from exposure to the weather and other causes; by reducing the costs of storage and insurance; by reducing the expenses of grading; by reducing the expenses of financing; and by reducing the costs of selling.

The coöperative association ordinarily sells to the mills or to the dealers who sell to the mills; local buyers, factors, and merchants are largely eliminated. Storing in better warehouses lessens damage and lowers the cost of insurance. For example, one association had been storing cotton in grade *A, B, C,* and *D* warehouses and paying an average insurance rate of $1.51 per $100. By storing in warehouses operating under the United States Warehouse Act and classed as *AAA*, the insurance rate was reduced to 16.2 cents. One association saved $280,000 per year on insurance alone. The coöperative association samples a bale only once, and it is handled and sold on the basis of the grading thus established. Under the method of private sales, however, the cotton is usually sampled each time it is sold. The associations also save the samples and sweepings, and in one year ten associations realized $169,000 from their sale. The associations

save on capital costs by arranging for loans at low interest rates, and they attempt to reduce selling costs by selling in large quantities.

Orderly marketing.—The coöperative associations do not control enough cotton to enable them to stabilize prices throughout the year. They do, however, study statistics, store their cotton, and attempt to sell it at times when the price is favorable.

Pooling.—Most of the associations pool the cotton sold for the farmers. Thus the farmer's cotton is placed in a pool with other cotton of the same quality, and he is paid the average price received for all cotton in the pool. If he has 10 bales of middling fair white 7/8 inch, and 5 bales of strict good middling white 1 inch, both lots are placed in the pools with other cotton of the same quality. The farmer receives for his ten bales the average price received by the association for all of its middling fair white 7/8 inch in the pool; and for his five bales, the average price received by the association for all of the good middling white 1 inch in the pool. The farmer is not penalized for selling at a time when the price is low; neither can he profit by selling when the price is high.

Some farmers who study the market closely feel that they can determine the best time to sell. They may object to receiving only the average price during the season when they feel that they could select a better-than-average time to sell. To meet the demand of such growers some associations operate pools for shorter periods, as for one day, one week, or one month. Such pools allow the growers to specify when their cotton is to be sold.

Purchase of cotton by the mills.—The southern mills buy most of their cotton from cotton merchants and coöperative associations. The New England mills buy

largely from dealers or brokers, who buy from or sell for the cotton merchants and coöperative associations. Most of the cotton is shipped from southern warehouses direct to the mills.

The mills buy much of their cotton to fill orders which they have received for cloth. When they think the price is low or when they are offered cotton of a desired quality, they may buy when no order for cloth has been received. They can protect themselves against a drop in price by hedging, or they can trust their judgment to buy when prices are low and make a profit out of a rise in price. In the latter case, they suffer a loss if the price drops.

Chapter 18

Review Questions

1. What are the uses of cotton? What are its chief competitors?

2. For what are linters used?

3. What are the uses of cotton seed?

4. What can you say of the elasticity of the demand for cotton?

5. Where is cotton grown in the world? In the United States?

6. Why has cotton raising been a small-scale industry in the past?

7. How are the growers financed?

8. What are the different kinds of cotton?

9. How is cotton graded?

10. Who are the chief consumers of cotton?

11. What determines the price of cotton?

12. How are cotton gin operators paid for their services?

13. To whom do the farmers sell their cotton?

14. How does the local storekeeper operate in the marketing of cotton?

15. What is a factor? What services does the factor perform in the marketing of cotton?

16. Who are the cotton merchants? What is their place in the trade channel?

17. What functions do the cotton merchants perform?

18. How do the coöperative associations operate in the marketing of cotton?

19. What are the objectives of coöperative associations?

20. How do coöperatives attempt to reduce marketing costs?

21. How do coöperatives pool cotton?

22. Why do some growers dislike to pool their cotton?

23. How do coöperative associations reduce insurance costs?

24. How do the mills buy their cotton?

25. Why do some mills speculate in cotton? How do other mills avoid speculating in cotton?

Thought Problems

1. Who are the final consumers of cotton? Can the consumption of cotton be increased? If so, how? If not, why? Would it be socially desirable to have the consumption of cotton increased?

2. The one-crop system has been said to be the curse of the Cotton Belt. Diversification of crops is advocated as the remedy. How would diversification help the cotton farmers?

3. Coöperative associations are said to benefit the farmers. Why have they not had a greater growth in the marketing of cotton?

4. What is meant by orderly marketing? How has it

been applied by the cotton coöperatives? How could it be applied?

5. If coöperative associations controlled the marketing of the great bulk of the cotton crop in the United States, could they adopt an orderly marketing program and stabilize prices? If so, would this be advantageous to the growers? To the consumers?

6. If such an orderly marketing program were successful, would there be any need for the cotton exchanges?

Chapter 19

Prices, Mark-Ups, and Margins

Importance of selling prices.—The merchant's profit is the difference between his selling price and the cost of the goods to him plus the expenses of operating his business. If his prices are too low, they will not cover the cost of goods and his expenses. If they are too high, his sales will decline.

Factors affecting prices.—In pricing his goods, the merchant should consider the cost of the goods, the expenses of selling them, the prices the consumers will pay for the goods, and the prices charged by his competitors.

If a merchant sells goods for less than their cost to him plus his operating expenses, he will lose money. When competition will not permit him to raise his prices, he may be able to prevent a loss by buying goods at lower prices or by reducing his expenses. When undersold by chain stores, many dealers started buying from cash-carry wholesalers or joined coöperative chains in order to secure lower prices. Buying for cash or buying in larger quantities may enable the buyer to secure lower prices. A dealer can often reduce his expenses by increasing his efficiency of operation, the methods of doing which are discussed in the following chapters.

If a merchant places too high a price on his goods, his sales will decrease. On the other hand, low prices ordinarily increase sales. For luxuries or specialties, peo-

ple may be willing to spend liberally; for standard necessities, on the other hand, they are likely to buy from the seller with the lowest price. For goods which are not standardized, the buyers may think that a high price is a sign of quality; similarly, they may hesitate to buy a low priced article for fear it is of inferior quality. Goods of known quality, however, are likely to be bought from the lowest priced seller who is convenient to the buyer. When articles are bought for display or show, people like to purchase goods that are known to be expensive or which bear the label of an exclusive manufacturer or dealer.

Customary prices.—Goods that are sold at the same prices for a long time come to have customary prices, that is, people associate certain prices with them. For many years, street car fares were five cents, and people objected very strenuously when higher operating costs forced the companies to raise their fares. Some articles have been sold for 5, 10, or 25 cents for so long that the buyers think of them as being worth only these amounts. When an article has a customary price, it is desirable to sell it at that price. It may be better to change the size of the package rather than the price.

Odd and even prices.—Goods are often given even prices so that only one coin is necessary to make a purchase. We thus have prices of 5, 10, 25, and 50 cents, and one dollar. Many stores, however, use odd prices, such as 9, 19, 21, 39, 47, 89, and 98 cents. Such prices often place an article in a lower price class; for example, 98¢ for a dollar item places the article in the class of articles selling for less than a dollar. Odd prices suggest cut prices. A nineteen cent price suggests that the article ordinarily sells for twenty-five cents. A forty-seven cent price leads the customer to feel that the article

usually sells for fifty cents.[1] Department stores, chain stores, mail-order houses, and many independent merchants have often used odd prices very effectively. Odd prices are so generally used for some articles that it may be said that the odd prices have become the customary prices.

Odd prices may also suggest that the selling prices are arrived at accurately and not in a haphazard manner. Thus butter, eggs, and many other grocery items are commonly priced in odd cents.

Quantity prices.—The seller often gives a lower price on the sale of a large quantity than on the sale of a small quantity. The manufacturer may give a lower price on a carlot sale than on the sale of a single case, and the buyer who purchases $50,000 a year may obtain a lower price than if he bought only $1,000.

The retailer may use quantity prices to increase the size of his sales: a 10 cent article may be priced at $1 a dozen. The use of quantity prices may increase the average size of sales, even though there is no reduction in prices. Thus, instead of marking his goods at five cents each, the retailer may mark them at 10 for 50 cents, thus suggesting a purchase of 10 units. Some retailers have been successful in selling oranges by the bushel and peck; bushel and peck prices suggest the purchase of these lots to obtain lower prices.

Leaders.—Stores often place very low prices on certain articles which are used as leaders. At times leaders are sold below cost; they are then known as *loss leaders*. Leaders are used to attract customers to a store, in the

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[1] Another reason for odd prices is that the customers do not ordinarily present the correct change. The salesperson must then ring up the sale on the cash register or make out a sales slip in order to make change. This lessens the opportunity for dishonesty by the salesperson.

hope that they will buy other goods on which the dealer makes a profit. Leaders have been used very successfully by department, chain, and many independent stores. Goods used as leaders are usually widely used staple goods of known quality, such as overalls, advertised toilet articles, sugar, flour, soap, canned goods, butter, and potatoes.

Theory of using leaders.—The theory of using leaders is to sell well-known or standard goods at low prices and make a profit on other goods that will bear a larger mark-up. It is said that the public know the quality of only a few goods and that they compare prices on relatively few articles. For this reason, it is argued that by naming low prices on a few articles, the dealer can attract customers and then make a nice profit on the rest of his goods.

Many people feel that every item should carry a mark-up large enough to cover its cost and the expense of selling. It seems unfair to overcharge the buyers of some articles to make up for losses on articles sold to other customers. It would seem that every article should carry a profit, yet competition may prevent the merchant from pricing all of his goods to do so. Although the practice appears unfair, it must be admitted that some sellers have used low priced leaders very successfully in building up sales and making profits.

The one-price policy.—A one-price policy means that the seller has the same selling prices to all buyers.

Historically this is a relatively new policy. Formerly merchants commonly marked their goods in code, and haggling over prices was common. The dealer would ask a higher price than he expected to receive, and the buyer would offer a considerably lower price. A battle

of wits, words, and endurance followed, and the price finally paid depended largely on the relative bargaining ability and perseverance of the buyer and seller. Such "horse trading" tactics were common in the sale of all commodities, and many buyers and sellers prided themselves upon their shrewdness in trading. The practice of higgling over prices is still common in many parts of the world. In the Orient, for example, a seller often asks several times the amount he is willing to accept for his goods.

The one-price policy was popularized in the United States by such great merchants as A. T. Stewart in New York, John Wanamaker in Philadelphia, and Marshall Field in Chicago during the middle portion of the last century. Its spread was somewhat slow, but most retail stores now use it. Yet cutting prices on the larger commodities is still common, and higgling over prices is still common, especially in the wholesale markets. Higgling over prices is expensive, as it takes the time of both buyer and seller. When accustomed to uniform prices, the buyer may become suspicious of a cut-price article, feeling that its quality is poor.

Determining selling prices.—When the dealer receives goods, he ordinarily adds enough to their cost to cover his operating expenses and leave a profit. What the buyers will pay for the articles and the prices charged by competitors, however, often modify the figures arrived at in this way. On some articles, the selling price may allow a large profit; on other articles, the dealer may have to take a loss. The amount added to the cost of an article to secure the selling price is known as *mark-up*. The difference between the price actually re-

ceived for an article when it is sold and its cost is known as *margin, gross margin,* or *gross trading profit.*

Mark-up.—The merchant adds a certain percentage of mark-up to the cost of goods in order to arrive at a selling price. This percentage should be computed on the selling price. To illustrate, a merchant buys an article for 36 cents. He has operating expenses of 20 per cent, and wants to make a 5 per cent profit; he, therefore, wants to mark his goods with a selling price that will yield a 25 per cent mark-up. If, erroneously, he figures the mark-up on the cost, he takes 25 per cent of 36 cents, which is 9 cents, and adds this 9 to the 36, which gives him a selling price of 45 cents. But his operating expenses are 20 per cent. Figuring twenty per cent of the selling price of 45 cents, we have 9 cents—the figure that the merchant had intended to cover both 20 per cent operating expense and 5 per cent profit. His mark-up, however, merely covers his operating expenses and leaves him no profit. Many dealers make this mistake and then wonder why they have no profit.

The correct method of figuring mark-up.—The correct method is to set the price so that a 25 per cent margin is realized on the selling price. To do this, we let the selling price equal 100 per cent. We want a 25 per cent margin, so we subtract 25 from 100; this leaves 75 per cent, which equals the cost of the article. Now if 75 per cent is equal to 36 cents, then 100 per cent is equal to 48 cents, the correct selling price. The difference between 48 cents (the selling price) and 36 cents (the cost) is 12 cents. Twelve cents is 25 per cent of the selling price, and it covers the 20 per cent expenses and allows a 5 per cent profit.

The rule is to deduct the desired percentage of

mark-up from 100; divide the cost of the goods by the remainder; and multiply the quotient by 100.[2] Thus:

	Per Cent
Selling price........................	100
Desired percentage of mark-up........	25
Cost of the article..................	75

75 per cent = 36 cents; 1 per cent = 0.48 cents;
100 per cent = 48 cents, the selling price.

Short cuts, of course, are used. To secure a 50 per cent mark-up, divide the cost by 5 and move the decimal point one place to the right; to secure a 40 per cent mark-up, divide the cost by 6 and move the decimal one place to the right; to secure a 30 per cent mark-up, divide by 7 and move the decimal point; to secure a 25 per cent mark-up, divide by 7.5 and move the decimal point; to secure a 20 per cent mark-up, divide by 8 and move the decimal point; to secure a 33⅓ per cent mark-up, divide the cost by 2 and multiply by 3. Tables are prepared which show the selling price of articles with different costs to yield various percentages of mark-up. Such tables enable dealers to mark their goods correctly without the work of computing the price of each article.

What is cost?—Cost is the price paid for an article, plus the expense of getting it to the merchant's place of business. The cost includes the payments for freight, express, postage, drayage, and any costs of loading, unloading, and packing paid for by the buyer.

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[2] Twenty-five years ago, many arguments were made for computing mark-up on cost. Research bureaus, government departments, trade associations, and universities, however, practically all agree that mark-up should be computed on selling price. Expenses included in salesman's commissions are nearly always figured on sales. To compute expenses on selling prices and mark-up on cost prices is likely to be not only misleading but disastrous to the dealer's profit.

To secure at the cost price, all trade discounts[3] are deducted from list price. Quantity discounts are also usually deducted when they are given at the time of purchase. Sometimes quantity discounts are based on the total purchases made during a given period, such as a month or a season. When this is the case, the exact amount of the discount is not known at the time the goods are received and placed on sale.

There is a difference of opinion as to whether cash discounts should be deducted in arriving at the cost of the goods. A cash discount is an allowance for paying a bill within a certain time. Cash discounts are commonly allowed on purchases made at wholesale but are not usually allowed on retail sales to the consumers. A common rate of discount is 2 per cent for payment within 10 days of date of sale (invoice), the bill being due at its face amount in 30 days. These terms are usually expressed thus: 2/10, n/30. If a merchant buys $100 worth of goods on these terms on January 1 and pays for them on January 10, he pays only $98. If he does not pay on or before January 10, he is not entitled to any discount. The bill is due at its face value of $100 on January 30.[4] The extra $2 is in the nature of a penalty for slow payment.

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[3] Trade discounts are deductions from list prices. They are subtracted from the list price one at a time so that the buyer is never charged with them. The list price may be the price to the ultimate consumer, while a trade discount is given the retailer for his margin.

[4] Some common terms are: 2/10, n/30; 1/10, n/30; 2/10, n/60; 2/10, 1/30, n/60; ½/10, n/30; and 2/10, n/30 e.o.m. *E.o.m.* means "end of month." In some trades the dealers make so many small purchases that the rendering of separate bills and the making of separate collections on each purchase would involve much work for both seller and buyer. Hence it is common, in such trades, to invoice all purchases made during the period at the end of the period. An invoice is rendered at the end of the period and the terms apply from that date. Thus under terms of 2/10, n/30 e.o.m., the buyer is allowed to take

Mark-downs.—Goods are not always sold at the marked price. When goods do not sell within a reasonable time, the dealer may change their location in the store, may give them a more prominent display, may place them in the show windows, may advertise them in the newspapers, may instruct the salespeople to use special effort to sell them, or he may reduce their prices. Some stores have a definite policy of reducing the prices of all articles that do not sell within a certain period after they are placed in stock.

Goods may also be marked down because they become soiled or shelfworn, because they are going out of fashion, because competitors reduce their prices, because market prices decline, or because the dealer is overstocked.

Margin.—The margin actually realized on the sale of goods is ordinarily less than the mark-up placed on them. Some goods are marked down; some are stolen; others decay or spoil, so that they are a complete loss. Such mark-downs and losses reduce the margin.

Determining the mark-up percentage.—All of these factors must be taken into consideration in determining the mark-up that should be placed on goods. The mark-up percentage varies with the goods. The cost

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2 per cent discount on the month's purchases if he pays the bill by the 10th of the following month. The period may be a week or one-half of a month. Wholesale grocers and druggists often use half-months or months as the accounting period for sending out bills. Retail stores often send statements weekly or monthly, covering purchases made during the week or month. Many other terms are used. In some cases terms apply from the season in which the goods are to be sold. In the apparel trades, manufacturers like to obtain advance orders to keep their plants in operation. Thus on spring orders, the manufacturer may make and ship the goods in the late winter, but the invoice may be dated on April 1 or May 1, from which date the terms apply. The retailers may be allowed from 60 or 90 days from the date of the invoice to make payment.

of selling groceries is less than the cost of selling clothing; groceries are therefore given a lower mark-up than clothing. The mark-up placed on different articles by the same dealer often varies widely. Some items have a very slow turnover, which means a higher expense; it is natural, therefore, to place a higher mark-up on such goods. Goods used as leaders may have a low mark-up. Goods that are not highly competitive are likely to bear a larger mark-up than those which are highly competitive. Specialties often bear a higher mark-up than staples. Nails, sugar, and overalls are examples of competitive staple articles that are commonly given very low mark-ups by the retailers.

Mark-downs are more important with style goods than with staples. Goods with a high style risk are usually given a high mark-up to allow for the mark-downs of those that do not sell promptly.

The merchant giving credit and delivery service usually has higher expenses than the merchant selling on a cash-carry basis and may therefore mark his goods for a higher margin. Dealers in goods sold on long credit, such as farm equipment, furniture, and musical instruments, may have two prices on their goods, one for credit and one for cash. At times they mark their goods on a credit basis and give a lower price for cash; at other times, they mark their goods for cash and charge extra for credit. This latter practice is common in the sale of automobiles and trucks when credit is extended by finance companies.

Dealers in large cities usually have higher expenses than dealers in the smaller towns, and hence use a higher percentage in marking their goods.

The dealer's total margin.—The dealer's total margin is the sum of the margins made on all articles sold. It

is the difference between sales and the cost of goods sold. The cost of goods sold is determined by adding purchases and opening inventory and by deducting the closing inventory. Margin is computed as follows:

Sales for the period		$40,000
Inventory at the beginning of period	$10,000	
Purchases	30,000	
Transportation (freight, express, postage, drayage)	500	
Total to be accounted for	$40,500	
Inventory at the close of the period	10,500	
Cost of goods sold		30,000
Margin		$10,000

The margin here is $10,000, or 25 per cent of sales.

Effect of mark-downs.—A dealer buys 1,000 pairs of shoes for $3.00 a pair, or a total of $3,000. In order to make a 40 per cent mark-up, he prices them at $5.00. He sells 700 pairs at $5.00 and receives $3,500. Before he sells the other 300 pairs, the manufacturer reduces his price to $2.40, and a competitor offers his shoes at $4.00. The dealer therefore reduces the price on the other 300 pairs to $4.00. He sells 200 pairs at this price and receives $800. The other 100 pairs do not sell at this price, and he therefore advertises them in a clearance sale for $2.00. He realizes $200 for them at this price. His total margin on the 1,000 pairs of shoes is $1,500.

Sales:	
700 pairs sold at $5.00	$3,500
200 pairs sold at $4.00	800
100 pairs sold at $2.00	200
Total	$4,500
Cost of goods sold, 1,000 pairs at $3.00	3,000
Margin	$1,500

The dealer's total margin of $1,500 on the 1,000 pairs of shoes was 33⅓ per cent. He priced them for a 40

per cent margin, but mark-downs reduced his margin to 33⅓ per cent.

Replacement costs.—There has been considerable discussion of whether or not the dealer should change his selling prices when the wholesale market prices of the goods change. Dealers seldom re-price all of their goods every time cost prices change. They leave the same prices on the goods until it is necessary to reduce the prices to sell them or until they buy some new stock. Some argue, however, that when the market price (the replacement cost) of the goods rises, the merchant should go over his stock and raise his prices to the figures that they would be if he had bought at the advance price. The advocates of this policy say that the dealer should do this to compensate for mark-downs which he must take when prices fall.

In the illustration given above, the shoe dealer marked down the price on 300 pairs of shoes because the manufacturer's price was reduced. Suppose the manufacturer raises his price to $3.60. Now if the dealer followed the policy of changing his prices on the basis of replacement costs, he would have marked up the price of the shoes to $6.00. If he had sold 200 pairs at this price, he would have increased his margin by $200. This would have been a clear profit to him, arising out of changes in market prices over which he had no control.

In periods of rising prices, dealers make profits in just this way—out of increased values of inventories. On the other hand, when prices fall, dealers must often take losses on their inventories. This helps explain why periods of rising prices are profitable and periods of falling prices unprofitable to merchants.[5]

[5] It must not be inferred from this that all or even the majority of dealers make a practice of remarking their goods every time prices change. The shoe dealer in the above illustration probably would not

Variation in margins.—The margins realized by different dealers vary widely. The margins of a group of 238 rural dealers varied as shown in Table 26:

TABLE 26.—VARIATIONS IN MARGINS OF A GROUP OF RURAL STORES HANDLING FARM EQUIPMENT

Percentage of Margin	*Number of Dealers*
Under 10	12
10–12	16
13–15	28
16–18	56
19–21	57
22–24	38
25–27	18
28–30	9
Over 30	4
	238

Average margins.—Average margins realized by groups of different kinds of stores are given in Table 27 from figures in typical surveys:

TABLE 27.—AVERAGE MARGINS FOR VARIOUS KINDS OF STORES

Retail stores:	*Per Cent*
Grocery (service)	19.0
Hardware	26.0
Shoe	29.0
Large department	35.0
Small department	32.0
Jewelry	40.0
Tire and auto accessory	24.0
Wholesale stores:	
Grocery (service)	13.0
Drug	17.0
Automotive equipment	25.0
Plumbing	22.5
Wall paper	42.5
Dry goods	18.0
Hardware	20.0

change the prices of his shoes immediately upon hearing of the manufacturer's change in price. He would probably leave the price unchanged until he buys more shoes. When he places his newly purchased shoes on sale he must change the prices on the shoes in stock or offer the same shoe at two different prices.

Chapter 19

Review Questions

1. What determines a merchant's profit?

2. What factors does a merchant consider in naming his prices?

3. What is the danger of a high price? Of a low price?

4. What is meant by customary price? Its importance to the seller?

5. What is meant by an even price? What is its advantage?

6. What is meant by an odd price? What is its advantage?

7. What is meant by quantity prices or discounts?

8. What is meant by a leader? By a loss leader?

9. Why are leaders used? Is it good business to use price leaders?

10. What is meant by mark-up?

11. What factors determine the proper percentage of mark-up?

12. What is the correct rule for computing mark-up?

13. What is meant by the cost of goods to a dealer?

14. What is a trade discount?

15. What is a cash discount? Illustrate.

16. What is meant by a mark-down?

17. Why are goods marked down?

18. What is meant by margin? What are other names for margin?

19. How is a dealer's margin computed?

20. How do mark-downs affect a dealer's margin?

21. What is meant by replacement cost?

22. A dealer buys shoes at $4.20 a pair. What is th selling price for a 40 per cent mark-up? For a 30 per cen mark-up? For a 33⅓ per cent mark-up? For a 50 pe cent mark-up?

23. A dealer buys dresses at $9.00 each. What is th selling price for a 33⅓ per cent mark-up? For a 50 pe cent mark-up?

24. A dealer buys shirts at $12 a dozen. What must th selling price for each be to realize a 25 per cent mark-up A 30 per cent mark-up? A 40 per cent mark-up?

25. A dealer buys lettuce (5 dozen heads to the case) a $2.40 a case. What is the selling price per head to realiz a 33⅓ per cent mark-up? A 20 per cent mark-up? A 5 per cent mark-up?

26. A grocer buys sugar at 4½¢ a pound. What is th price for a 10 per cent mark-up?

27. A grocer buys sugar at 4¢ a pound and pays freigh and drayage at the rate of 51.2¢ per 100 pounds. What i the selling price per pound for a 6 per cent mark-up?

28. A grocer buys oranges at $5.40 a crate. He pays 36 per crate for having the oranges hauled to his store, an there are 216 oranges in each crate. What is the selling pric per dozen to realize a 33⅓ per cent mark-up?

29. A dealer buys 100 suits at $40 less 40 per cent trad discount. He pays $30 express charges on the suits. Wha is the selling price of each suit for a 40 per cent mark-up?

30. Dealer Brown had an opening inventory of $4,000 He makes purchases of $40,000 and pays transportatio charges of $1,000 on his purchases. At the end of the year his inventory was $3,000. During the year his sales wer $60,000. What was his margin in dollars? In percentage?

Thought Problems

1. When is a price high? When is a price low?
2. Why are trade discounts used?
3. Why are cash discounts given? Should a cash discoun

be considered as a reduction in the purchase price or as a financial gain that should be added to profit?

4. A cash discount of 2/10, n/30 is said to be equal to 36 per cent a year. How is this 36 per cent computed? It is said that money is not worth 36 per cent. If so, why are such large discounts given?

5. Should a merchant make a practice of changing the prices of goods in stock when the market prices of these goods change, that is, should he base his prices on replacement costs? Why or why not? Give arguments on both sides.

6. A store selling wearing apparel for women marks down the price of all unsold goods 25 per cent at the end of two weeks. A dress priced at $16 is marked down to $12 if it is unsold at the end of two weeks. If unsold at the end of four weeks, the price is reduced to $9. If unsold at the end of six weeks, it is reduced to $6.75. This method is continued until the dress is sold or given away. Comment on this method of making mark-downs.

7. Another dealer in women's wear says that what a garment costs has nothing to do with its selling price. Once purchased, the garments must be sold for what they will bring. He therefore gets the advice of his sales women and marks his goods with the prices which he feels the consumers will pay for the various garments. If the garments do not sell at this price, they are marked down. Comment on this method of naming prices.

8. A dealer in men's furnishings bought a bargain lot of fancy scarfs for his Christmas trade. He priced the scarfs at $2, a very reasonable mark-up for quick sale. At this price, they were an exceptionally good value to the consumers. They did not move at this price. As Christmas approached, the dealer became worried and marked up the price to $4. They sold quickly at this price. Under what circumstances will a higher price increase sales?

9. Why do the margins of similar dealers vary so widely?

10. A dealer buys hats at $5 each on the following terms: 5/30, 3/60, 2/90, n/120. He pays for the hats within 30

days. What is the selling price for a mark-up of 40 per cent?

11. A manufacturer offers the following quantity discounts: 1–9 cases, net; 10–49 cases, 2 per cent discount; 50–99 cases, 3 per cent discount; 100–399 cases, 4 per cent discount; 400 cases (carload), 5 per cent discount and prepaid freight. Terms are 2/10, n/30. A dealer buys 400 cases and pays within 10 days. A case contains 24 items. The quoted price is $2.70 per case. What is the selling price per item for a 25 per cent mark-up?

12. A manufacturer quotes knives at $6 a dozen with the following discounts, 30 and 20. What is the selling price of a knife to yield the dealer a 50 per cent mark-up?

13. In figuring mark-ups, the selling price frequently comes out an odd figure. Many dealers mark the price at the nearest even or customary figure. It is said that this practice causes many small losses and cuts heavily into profit, and that a dealer should use the exact odd prices. What is your opinion?

14. What is meant by e. o. m. terms? Why are they used?

CHAPTER 20

Operating Expenses

Expenses.—In the operation of his business a merchant is bound to incur expenses. He must pay salaries and wages to his employees, rent for the building occupied, and taxes and insurance on his goods and fixtures. He must pay for advertising, light, heat, wrapping paper and supplies, delivery of goods, telephone service, and depreciation on his store fixtures. Bad debt losses are also considered as an expense. The merchant ordinarily includes his own salary as an expense. This is considered good practice, but the difficulty is that the merchant is not an impartial judge of the value of his own services.

Rent on owned buildings.—When the merchant owns his own store building, he may charge himself rent on the building, just as if he rented it from another. In this case the taxes and depreciation on the building, and interest on its value or on the mortgage must *not* be included in expenses. To do so would be to include the expenses of the building twice.

Interest.—Interest upon the owner's capital invested in a business is sometimes included in operating expenses and at other times is excluded from expenses and considered as a part of profit.

Classification of expenses.—The expenses may be classified in several ways. The most common method in the past has been to classify them in the way the accountant ordinarily kept the books. This has been called

the *natural* classification, as the expenses are grouped according to the purpose for which they were made—for salaries, rent, advertising, taxes, insurance, repairs, and depreciation.

The *operating* classification groups expenses according to the departments of the business or according to the functions performed, as, for example, administration, publicity, buying, and selling. This grouping helps the merchant to analyze his business. Ordinary accounting merely tells the dealer whether or not he is making money on his total business. He is very often making money on some departments or on some goods and losing money on other departments. Cost studies have shown that many business concerns were losing money on many of their customers, on many of their products, and in many territories.[1] In many cases a thorough analysis of expenses has shown that the dealer was pushing the sale of goods on which he was losing money.

Form of operating statement.—A form of operating, or profit and loss, statement is shown in Table 28 covering the operations of department stores with sales of $600,000 (see page 346).

It will be seen from the statement that this store had gross sales of $636,600, but that goods returned by the customers and allowances made to customers amounted to $36,000. This left net sales of $600,000. Net sales are taken as 100 per cent in the computation of all percentages, except those of earnings or income on capital. The cost of goods sold (purchases with inventory adjustments) was $396,000. This left a margin of $204,000, or 34 per cent. Expenses, including interest, amounted

[1] A third method of classifying expenses is according to productive factors as listed by economists—land, labor, capital, and management. Very little practical use has as yet been made of this classification.

TABLE 28.—FORM OF PROFIT AND LOSS, OR OPERATING, STATEMENT COVERING DEPARTMENT STORES*

	Dollars		Percentages
Gross sales	$636,600		
Less returns and allowances	36,600		
Net sales		$600,000	100.0%
Inventory (goods in stock), Jan. 1	$160,000		
Purchases: $373,900 plus transportation on goods of $6,600†	380,500		
Cost of goods handled	$540,500		
Inventory, December 31	144,500		
Cost of goods sold		396,000	66.0
Margin		$204,000	34.0
Operating expenses:			
Salaries and wages	$101,400		16.9
Rent	27,000		4.5
Advertising	15,600		2.6
Loss from bad debts	1,500		.25
Insurance on stock and fixtures	2,700		.45
Taxes on stock and fixtures	3,600		.6
Interest on investment, excluding building	13,800		2.3
Other expenses	24,000		4.0
Total, including interest		189,600	31.6
Operating or net profit		$ 14,400	2.4
Other incomes†		6,600	1.1
Net income (or profit) over and above interest on investment		21,000	3.5
Net earnings or income, including interest on investment		34,800	5.8
Net earnings or income on capital		12.3 per cent	

*Figures adapted from report of Harvard Bureau of Business Research for stores with sales between $500,000 and $2,000,000.

†Cash discounts received were deducted from purchases.

to $189,600, or 31.6 per cent. The operating profit amounted to $14,400, or 2.4 per cent. The net income (or profit) after adding other income was $21,000, or 3.5 per cent. In order to compute the earnings on investment, we add the interest of $13,800 included in expense. This gave $34,800, which was equal to 12.3 per cent of the invested capital.

In the above statement, cash discounts taken on purchases were deducted from the purchases. If this is not done, such discounts are included in "other income," and added to the operating profit to obtain the net income.

Variation in expenses.—The dealer's expenses vary with the kind of goods handled, with his location, with the services rendered his customers, with his volume of sales, with changes in the price level, and with his efficiency.

It costs more to sell drugs than to sell groceries, and it costs more to sell furniture than drugs. The expenses vary with the time and effort required to make sales, with the size of the individual sales, with the space occupied by the goods, with the services rendered, and with the rate of stock turnover or the length of time goods are carried in stock before being sold. Groceries are convenience goods and people do not ordinarily shop for them. This means that the salespeople do not have to wait for the customers to make up their minds what they want. The grocer has a relatively high rate of stock turnover.

The drug store handles convenience goods to a very large extent, but the druggist must carry a great variety of goods in stock, which slows up his rate of turnover. Goods sold at the soda fountain and in the prescription department require personal service. For these reasons the druggist has higher expenses than the grocer.

The furniture merchant sells in large units, but his merchandise is bulky and requires a large amount of space, thus increasing his expense. People shop for furniture, which means that the salesmen must show furniture to many people who make no purchases; this adds

to the selling expenses. Sales are likewise irregular, thus necessitating periods of idle time which limit the sales per salesman. The quantity of goods required for a complete stock, and the seasonal nature of the business, slow up the rate of stock turnover and increase expenses.

Retail establishments that repair or make goods (such as jewelry, radio, plumbing, and electric shops; garages; and restaurants) have their expenses increased by the extra amount of labor required.

Average expenses of wholesalers and retailers in various trades were given in Chapters 7 and 8.

Services rendered.—The services rendered customers affect the dealer's expense. The store extending credit liberally and delivering its goods has higher expenses than the store operating on a cash-carry basis, other things being equal. The self-service store usually has lower expenses than the store employing salesmen. The store having expensive fixtures, rest rooms, writing rooms, and a liberal policy in allowing goods to be returned will ordinarily have higher expenses than a store giving less service.

It has been estimated that it costs retail grocery and hardware stores from 5 to 8 per cent for credit and delivery service on goods sold on that basis. The cost of credit includes the interest on outstanding accounts; the losses from bad debts; the labor in keeping books and the cost of making collections—sending out statements and collection letters; and the use of personal collectors, lawyers, and collection agencies. Very few stores, however, do all of their business on credit, and very few deliver all of their goods. For these reasons the cost of credit and delivery service to most grocery and hard-

ware stores is less than 5 per cent when computed on total sales.[2]

Operating efficiency.—Differences in the efficiency of different merchants in a trade account for more of the variation in their expenses than any other single factor—than the services rendered the consumers, differences in location, volume of sales, or changes in price level. A merchant's efficiency is shown by his selection of goods, by the location of his store and the way he uses the space, by the way he displays his goods, by the salesmanship used in selling the goods, by the way he advertises, and by the rapidity with which he turns over his stock of goods.

The variation in the expenses of similar dealers is illustrated by the figures in Table 29 which cover a group of rural merchants:

TABLE 29.—VARIATION IN EXPENSES OF A GROUP OF RURAL STORES

Percentage of Operating Expense	*Number of Dealers*
Under 5	8
5–7	15
8–10	39
11–13	43
14–16	50
17–18	46
20–22	14
23–25	8
Over 25	15
	238

[2] Figures compiled by *The Progressive Grocer* for successful food stores in 1934 show the following average expenses: super-market on service basis, 18.2 per cent; super-market on cash-carry basis, 13.8 per cent; super-market on cash-carry self-serve basis, 12.1 per cent; service stores, 16.7 per cent; cash-delivery stores, 17.5 per cent; cash-carry stores, 16.4 per cent; cash-carry self-serve stores, 12.6 per cent.

Method of measuring efficiency.—In order to succeed, a merchant must be at least as efficient as his competitors, and to be an outstanding success he must be more efficient than they. One method of measuring efficiency is to place one's accomplishments alongside those of others engaged in the same line of business. A merchant's accomplishments are set forth in his operating (or profit and loss) statement. A merchant can measure his relative efficiency by comparing his operating statement item by item with a composite statement showing average figures for a group of similar merchants. This method indicates which of his expenses are high, which are average, and which are low. It will show whether his margin is high or low and how his profit compares with that of other dealers in the trade. Some merchants want to be better than average. They may compare their operations with the operations of a superior merchant or with statements covering a group of superior merchants.

John Smith as an example.—We shall illustrate the method with the operating statement of John Smith, who conducts a retail hardware store with sales of $75,000 a year in a town of 5,000 population. His statement is compared below with statements for dealers with sales of $60,000 to $100,000 located in towns of from 3,500 to 10,000. John Smith's operations are compared in Table 30 with both the average performance of the entire group and the average of the merchants making a profit.

What Smith finds.—Upon examining these statements, Smith finds that his margin is higher than the average of the group and also higher than that of the better stores.

Smith's expense for rent is higher than those shown

TABLE 30.—OPERATING RESULTS OF RETAIL HARDWARE STORES WITH SALES OF $60,000 TO $100,000 IN TOWNS OF 3,500 TO 10,000*

	Group Average	*Average for Stores Making a Profit*	*John Smith's Store*
Sales	100.0%	100.0%	100.0%
Cost of goods sold	73.9	73.6	70.9
Margin	26.1	27.9	29.1
Expenses:			
Salesmen's salaries	7.9	7.7	10.1
Total salaries	11.7	11.4	15.1
Rent	2.7	2.5	4.4
Delivery	1.4	1.3	1.9
Advertising	0.9	0.9	1.3
Loss from bad debts	1.1	1.1	0.6
Interest on borrowed money	0.6	0.5	0.5
Other expenses	3.8	3.9	4.5
Total	22.2	21.6	28.3
Operating profit	3.9	6.3	0.8
Cash discount and interest received	1.5	1.5	1.3
Net profit, before payment of interest on investment	5.4	7.8	2.1
Interest on owner's investment	2.9	2.9	3.4
Net profit, or income, above interest on owner's investment	2.5	4.9	*1.3 loss*
Net profit (earnings or income) percentage of owner's investment	11.2	16.1	3.7
Annual sales per actual salesman	$17,346	$17,251	$14,071
Annual sales for all persons in the store (average)	$11,830	$11,770	$9,375
Percentage of sales made on credit	58%	57%	51%
Days credit sales on books (number of days required to collect accounts)	109	120	92
Number of stockturns per year	2.3	2.4	2.0
Annual salary per salesman	$1,078	$1,073	$1,355
Salary of owner	$2,083	$2,089	$2,400
Owner's investment per $10,000 sales	$4,872	$4,859	$5,654

*Figures for average and profitable stores are from reports of the National Retail Hardware Association.

for the other dealers. He has more space than he needs, or he is paying too much rent for his building. His delivery and advertising expenses are high. His expenses for loss from bad debts are below those of the other

dealers. Smith's total expenses are six per cent higher than the average for the group and nearly seven per cent above those of the better dealers. The cash discounts taken on purchases and the interest received on notes and accounts receivable are slightly below the average. This indicates that he did not take the discounts on all purchases.

After deducting interest, John Smith showed a deficit. However, he earned 3.7 per cent on his investment, compared with an average of 11.2 per cent for the group and 16.1 per cent for the better merchants. Smith sold less on credit than the average and collected his accounts somewhat more quickly than the average.

Smith has too much money invested in goods; he does not turn his stock rapidly enough. He has only two stockturns per year compared with an average of 2.3 for the group and 2.4 for the selected stores. He has more capital in proportion to sales than the average. In spite of this, he did not receive the average amount of cash discount and interest. Smith should reduce his expenses for rent and delivery; he should increase his rate of stock turnover; and he should watch his invoices more closely and pay his bills promptly so as to secure more cash discounts. By reducing his stock of goods, he will have more money available with which to take cash discounts.

The outstanding trouble with Smith's business is the poor showing made by his salesmen. Their annual sales are $14,071 each—$3,275 (19 per cent) below the average. He also pays his men higher than average salaries. He has too many salesmen for his volume of sales. He should either let one of them go or increase his volume of sales. Smith apparently has five salesmen and spends a part of his own time in selling. If he

should let one salesman go and maintain his sales, the average sales per salesperson would be about $17,300 or average for the group. The elimination of the salary of one salesman would decrease expense by 1.8 per cent and increase profit by the same percentage.

Smith's salesmen do not sell more than the average. It would seem, therefore, that their salaries should be reduced to the average or that the sales per man should be increased. Reducing salaries to the average level would decrease expense and increase profit by 1.8 per cent. These two changes would increase profit, or income, on investment from 3.7 to 10 per cent. Smith takes a salary of $2,400 compared with an average of $2,083. If he had taken only the average salary, his net income from the store would have been correspondingly increased. Thus, the principal trouble with Smith's business is the fact that he has too many employees or pays above-average salaries.

Another solution for Smith would be to increase his volume of sales with his present payroll. He might secure a more alert and better trained sales force. It may be that his prices are too high; this is suggested by his relatively high margin. As he is spending more than the average for advertising, it would seem that his trouble is in a poor selection of goods, high prices, poorly displayed goods, or poor salesmanship. He might try to improve his business by a better selection and display of goods and by improved salesmanship in his store.

Chapter 20

Review Questions

1. What expenses does a merchant incur in operating his business?

2. Should a merchant include a salary for himself in expenses?

3. When a merchant owns the building in which he conducts his business, should he include rent on this building as an expense?

4. If a dealer includes rent on his own building as an expense, should the taxes, repairs, depreciation, and interest on the value of the building be included as expenses?

5. Should a dealer include interest paid on money borrowed at the bank as an expense?

6. Should a dealer include estimated interest on his capital invested in the business as an expense?

7. How may a dealer group or classify his expenses? Which is the most widely used classification?

8. How are returned goods and allowances made to customers for defective goods shown on the operating statement?

9. How do you find the cost of goods sold?

10. How may cash discounts received on purchases be shown on the operating statement?

11. How is net profit determined?

12. What is the relation between expenses and the kind of goods handled?

13. What is the relation of expenses to the services rendered customers? What is the retail grocer's estimated cost of selling goods on credit and delivering them to the customers?

14. Why do the expenses of the merchants handling the same kind of goods, rendering the same services, operating in similar locations, and doing the same volume of business vary so widely?

15. What is the relation of a merchant's operating efficiency to his expenses?

16. How may a merchant measure his operating efficiency?

17. A dealer's books show the following figures: net sales, $60,000; opening inventory (Jan. 1), $12,000; closing in-

ventory (Dec. 31), $18,000; purchases, $51,000; expenses, $12,000. Compute the percentages of margin; of expense; and of profit.

18. A dealer has $50,000 worth of goods on hand on January 1. During the year he purchases $200,000 worth of goods; makes sales of $300,000; pays his employees $30,000; pays himself $5,000; pays $12,000 for rent; pays $9,000 for advertising; and pays $18,000 for other expenses. At the end of the year he has $30,000 worth of goods on hand. Compute this dealer's percentages of margin; of expenses; and of profit.

Thought Problems

1. William Edwards conducts a retail grocery store. His books for the year show the following: opening inventory, $5,000; purchases, $50,000; freight and trucking in getting the goods to his store, $500; cash discounts taken on purchases, $600; sales, $63,000; closing inventory, $4,500; salaries of 4 salesmen, $4,800; rent, $600; advertising, $315; delivery, $630; losses on bad debts, $315; salary of part time office employee, $300; salary of proprietor, $3,000; interest paid on borrowed money, $250; interest on $10,000 owned capital, $600; other expenses, $1,990.

(a) Set up an operating statement and compute the percentages for the important items in the statement.

(b) Compute the percentage earned on the proprietor's capital. Did Edwards make a profit or a loss during the year?

2. John Powell conducts a retail hardware store in Kingdon, a town of 7,000 population. During the year he had the following items on his books: gross sales, $82,000; returns and allowances, $2,000; inventory on January 1, $28,000; inventory on December 31, $32,000; purchases, $64,000; salaries of 6 salesmen, $7,500; salary of proprietor, $2,600; other salaries, $1,600; rent, $2,200; advertising, $1,000; loss from bad debts, $800; delivery, $600; interest on borrowed money, $900; other expenses, $2,800; interest received on notes and accounts receivable, $400. Powell spent one half of his time in selling and the other half in buying goods and managing the store. The employees other than salesmen consist of an

office girl and a delivery boy. The total number of people engaged in operating the store is 9. Sixty per cent of the sales are made on credit, and it takes an average of 120 days to collect outstanding accounts.

(a) Set up an operating statement.

(b) Criticize the operation of this store (refer to Table 30).

3. Newton's department store is located in a city of 100,000. In a recent year the books of this store disclosed the following: gross sales, $720,000; returns and allowances, $20,000; opening inventory, $180,000; closing inventory, $155,000; purchases, $440,000; discounts on purchases, $12,000; transportation charges on purchases, $7,000; salaries and wages, $120,000; rent, $35,000; advertising, $12,000; losses from bad debts, $3,000; other expenses, $42,000; interest on owned and borrowed capital at 6 per cent a year, $30,000.

(a) Set up an operating statement, computing the percentages.

(b) Compute the percentage which this business earned on the investment (owned and borrowed).

(c) Criticize the operation of this store (refer to Table 28).

Chapter 21

Some Tests for Merchandising Efficiency

Tests for efficiency.—In addition to a study of margin, expenses, and profit as shown in the preceding chapter, certain other comparisons are valuable. Such comparisons may be called tests for merchandising efficiency. Four important tests are: (1) the volume of sales per person; (2) sales per square foot of space; (3) collection period (the length of time it takes to collect for goods sold on credit); and (4) the rate of stock turnover.

Volume of sales per person.—The salaries and wages of salespeople are the merchant's largest expense. They usually make up one-fourth to one-half of his expenses. His total expenses and profits depend very largely upon the efficiency with which he uses his own time and the time of his employees, and the volume of business done by each person is an important index to the efficiency of his store. This can be found by dividing his sales by the total number of people engaged in the operation of the business.[1]

As the volume of sales per person increases, the expense percentage declines and profits increase. This is illustrated by the figures covering the operations of grocers and hardware stores shown in Table 31.

[1] For purposes of computing the average volume of sales per person, part-time employees should be reduced to a full time basis. Thus if the regular employees work 48 hours a week, persons working 16 hours a week would be considered as one-third of a full time employee.

TABLE 31.—RELATION OF SALES PER PERSON TO LABOR COST AND PROFIT

RETAIL GROCERS

Average Sales per Person Employed	*Expense for Salaries and Wages (Percentages of Sales)*
Under $9,000	13.2
$ 9,000–10,000	12.0
11,000–12,900	12.0
13,000–14,900	9.9
15,000–16,900	9.6
17,000 and over	8.4
Average $12,200	10.9

RETAIL HARDWARE STORES
IN TOWNS OF 10,000 TO 50,000 POPULATION

Sales per Person Employed	*Percentage of Earnings on Sales*
$ 8,309	*1.2 loss*
10,160	*2.8 loss*
12,027	.8 profit
13,239	1.3 profit
15,927	2.4 profit

Employees perform different services.—The merchant uses labor for many purposes: to make sales; to make purchases; to deliver goods; to unpack, mark, and arrange stock in the store; to arrange window displays; to keep records; and to make collections. The efficiency of each of these operations is important. All operations cannot, however, be judged by the same standard. The bookkeeper is to be judged by her speed and accuracy, the delivery boy by his speed and politeness, and the window display man by the attractiveness and timeliness of his displays.

Sales per salesman.—Most merchants have a record of the volume of sales made by each of their salespeople, as this information can be easily secured from the cash register or sales slips. The merchant thus has a definite measure of the performance of each salesman.

Most salesmen in retail and wholesale stores are paid

either straight salaries, or salaries plus bonuses or commissions. The earnings of retail salesmen do not ordinarily increase in proportion to the increase in their volume of sales. The volume of sales made by a salesman depends upon his ability as a salesman; and upon factors beyond his control, such as the attractiveness of the merchandise, the prices of the goods, the advertising done by his employer, the reputation and location of the store, the prosperity of the community, and other factors that bring customers into the store. Even when the salesmen are paid straight commissions, the merchant's expenses decline as the salesmen increase their volume of sales, because the percentage of overhead expense declines.

As the sales volume of his salesmen increases, the merchant's expenses decrease and his profits increase. This is illustrated by the figures in Table 32.

TABLE 32.—RELATION OF VOLUME OF SALES PER SALESMAN TO A MERCHANT'S EXPENSE AND PROFIT

WHOLESALE DRUGGISTS

Sales per Salesman	*Percentage of Sales Force Expense*
Under $ 80,000	4.5
$80,000–119,000	3.7
Over 119,000	2.8

RETAIL CLOTHING STORES WITH SALES OF $40,000 TO $80,000

Volume of Sales per Full-Time Salesman	*Percentage of Selling Expense**	*Percentage of Estimated Profits†*
Under $12,000	6.0	4.5
$12,000– 16,000	6.3	7.6
16,000– 20,000	4.6	8.9
20,000– 24,000	4.6	10.3
24,000– 32,000	4.3	9.4
32,000 and over	3.1	12.3
Averages $16,669	5.1	8.1

*Figures are for 1919, a year when prices were high and percentage expenses low.

†Estimates for a normal year.

Average sales per person.—Average sales for all persons employed in retail stores were $8,908 in 1929 and $5,613 in 1933. These figures include proprietors and all employees. Averages for various types of stores are shown in Table 33 for 1929.

TABLE 33.—AVERAGE SALES PER PERSON IN RETAIL STORES IN 1929*

Type of Store	*Average Sales*
Grocery and meat	$12,277
Department stores, without food	8,339
Dry goods	8,074
Filling stations	8,610
Automobile dealers	16,532
Men's clothing and furnishings	12,231
Shoes	10,454
Furniture	10,342
Restaurants	3,642
Lumber and building materials	13,438
Hardware	9,055
Drug	7,964
Tobacco	8,311

*Census data. Part-time employees reduced to full time, on basis that they work one-fourth of full time.

Irregular sales.—One of the main difficulties in securing a large sales volume per person is the bunching of purchases by the customers. In the sale of clothing and farm equipment, sales are largest in the spring and fall seasons and are relatively light in the winter and summer. The jeweler gets his large sales volume during the Christmas season. The florist gets his big volume for special occasions, such as Easter, Decoration Day, Valentine's Day, and Mother's Day. The grocer gets his big volume on Saturdays. Stores often find that business is much better on fair days than on stormy days.

Sales are not evenly distributed throughout the day. Many stores do most of their business during a few rush hours. If a merchant has enough salesmen to handle

business during the rush periods, some of them are usually idle at other times. This idle time reduces their average sales volume. The merchant can attack this problem in two ways. First, he can study his sales and find his peaks and employ part-time salespeople to work during his busy periods. The grocer may employ high school students to work on Saturdays; and the department store may employ married women, who want part-time employment, to work during the rush hours and for special sales. Part-time employees afford a good solution if satisfactory salespeople can be found. The grocer may have little trouble in finding suitable people for part-time employment, whereas the furniture, jewelry, and hardware stores may have great difficulty in finding competent salespeople who are available for part-time work.

The second method is to try to even up the business by increasing sales during dull periods. This may be done by adding lines of goods that sell at different times. Thus the coal dealer sells ice in the summer; and the soda fountain, whose business is greatest in the summer, adds lunches which sell the year around. Many stores use special sales to attract customers in the morning hours and on dull days. The advertising may be concentrated during the first half of the week, with the purpose of building up sales during the first five days in the week.

Better salesmanship.—Good salesmen sell more goods than poor salesmen. Two salespeople work in the same store and have the same opportunities, and yet one sells 50 or 100 per cent more than the other. The good salesman knows his goods, is polite and considerate of his customers, and tries to sell them the goods adapted to their needs. He uses suggestive selling by telling his cus-

tomers about new goods that have just been received or by employing the telephone to call his customers during dull periods and when new goods are received. In such ways the salesman increases his sales and builds a clientele of customers. The principles of salesmanship are explained in Chapters 27–30.

Sales training.—The merchant can improve the quality of salesmanship by selecting his salesmen carefully and training them thoroughly. He should tell them all about the goods, show them how to handle customers, how to make out sales records, provide them with information about the merchandise, and encourage them to read trade papers.

Pay.—Perhaps the biggest task in improving retail salesmanship is to overcome human inertia and laziness and keep the salesmen constantly awake and interested in their work. The method of paying salespeople has a good deal to do with keeping them alert and active. Too often salespeople are paid straight salaries. More use should be made of bonuses, commissions, and prizes. Salesmen may be rewarded for all of their sales over a fixed amount or quota, for securing new customers, for increasing sales over past periods, and so forth.

Size of sales.—Small individual sales limit the volume of sales which a salesman makes. A salesman can sell two cans as quickly as one, and it takes little more time to sell a case than a package. The salesman may even be able to sell a carton, case, bushel, or bag more quickly than a few pounds, as he does not have to weigh or measure the larger unit. Some stores try to induce their customers to buy in larger quantities by making combination offers, by suggesting larger purchases, and by making lower prices on larger purchases. An article priced at 10 cents per item or $1 a dozen often produces

many sales by the dozen. A price card reading "5 for 25 cents" may produce more sales than a sign reading "5 cents."

Store arrangement.—The store can be arranged to speed up sales. The goods should be placed so that the customers and salespeople can see and get at them easily. The scales, measuring devices, telephones, and cash registers should be located where the salesmen can reach them without extra steps.

"Goods well displayed are half sold" is an old motto. Modern stores put many of their goods on counters and tables where the customers can see and examine them. This method of display reduces the amount of the salesman's time required to make sales. Some stores have adopted the "self-service" method and allow the customers to select their own goods without the help of salesmen.

Rent.—Rent usually equals from 1 to 4 per cent of sales in different types of stores, and makes up some 7 to 15 per cent of a merchant's total expenses. If heat, light, and the other expenses connected with the occupancy of a building are included, rent is even more important. The dealer with too much space tends to allow stock to accumulate and become dirty or to remain so long on his hands that it goes out of fashion. Too little space, on the other hand, cramps a merchant in properly displaying his goods and limits the expansion of his business.

By comparing his operating statement with that of other similar stores, the dealer can learn whether his rent is above or below the average. If his percentage cost of rent is too high, he must find the cause before he can remedy the situation. Does he have too much space? Is the location too expensive for his purposes?

Location.—Location is very important for a retail store. Different types of stores need different kinds of locations. A good location for one type of store may be very poor for another type. Stores handling shopping goods should be in shopping centers, while stores handling convenience goods should be located where they can be easily reached by the consumers. It may be desirable to secure locations in residential districts, in rural villages, at crossroads, on the corners of busy streets, near suburban stations, and on automobile highways. The merchant should study the matter carefully before locating his store or changing his location.

Sales per square foot.—A comparison of sales per square foot of floor space will help the merchant to determine whether a high rent expense is caused by too much space or by paying too much for the space. If his percentage cost of rent is high and his volume of sales per square foot is low, he has too much space. He should use less space or increase his volume of sales. If, on the other hand, his rent cost is high and his volume of sales per square foot is high, he is paying too much rent. Either the landlord is overcharging him or he is using a location that is too expensive for the kind of goods sold. A study of sales per square foot is valuable. As yet there is, unfortunately, relatively little data available for comparative purposes.

The Harvard Bureau of Business Research has made available figures for department stores, which appear in Table 34. The rent paid per square foot tends to increase faster than the sales made per foot. This is the one reason why the percentage cost of rent increases as we pass from the poorer to the better locations and from the smaller to the larger towns.

Both sales and rent per square foot increase as the

TABLE 34.—SALES AND RENT PER SQUARE FOOT IN DEPARTMENT STORES*

	Sales per Square Foot		Rent per Square Foot	
Sales Volume of Stores	*Selling Space*	*Total Space*	*Selling Space*	*Total Space*
Under $1,000,000...	$20.50	$15.50	$0.55	$0.40
$1,000,000– 2,000,000...	30.50	22.00	0.85	0.60
2,000,000– 4,000,000...	30.50	21.50	1.00	0.75
4,000,000–10,000,000...	40.00	24.80	1.50	0.90
10,000,000 and over....	52.50	28.00	1.90	1.00

*Figures for 1927.

size of the store increases. Rent, however, increases faster than sales. The rent per square foot on the total space occupied increased from 40 cents to $1, or 150 per cent, while the sales increased from $15.50 to $28.00, or 80 per cent. This tendency is even more marked when the space used for selling is considered. The rent per foot on selling space increased 245 per cent, while the sales made on each foot increased only 156 per cent. It will also be noted that the small stores used a larger proportion of their space for selling than the larger stores. The stores with sales under $1,000,000 used 73 per cent of their floor space for selling, while stores with sales over $10,000,000 used only 53 per cent of their space for selling. The other 47 per cent was used for stockrooms, offices, and other purposes. This indicates that the larger stores perform more wholesale functions.

Customer frontage.—Many stores display their goods on tables and counters where the customers may see and examine them. This is done to increase sales. The length of tables and counters on which goods are displayed is called *customer frontage.* The store layout, or the way the fixtures are arranged, determines the amount of customer frontage, and the same amount of space may be so arranged as to give much or little front-

age. A merchant may compute his sales per foot of customer frontage.

Uses of capital.—The merchant uses capital principally for three purposes: to carry stocks of goods; to extend credit to customers; and to pay current operating expenses, such as salaries, rent, and advertising. Capital used to carry stocks of goods is discussed in the next chapter.

Collection period.—The merchant who sells on credit does so to increase his sales, or to secure higher prices for his goods. Credit is a definite service to many customers. Credit sales, however, add to the merchant's expense. They tie up capital in accounts receivable and involve expense in keeping records and making collection. The longer accounts are outstanding, the greater the expense of collecting them and the larger the number that prove uncollectible and that must be charged off as bad debts. It is thus important that a merchant collect his accounts as quickly as possible without offending his customers. The promptness with which he makes collections is an important test of his efficiency.

Let us consider the case of two dealers, *A* and *B*, each of whom sells $100,000 during the year. *A* sells $36,000 on credit, while *B* sells $72,000 on credit. *A* has monthly credit sales of $3,000, while *B* has monthly credit sales of $6,000. *A* collects his accounts in 45 days, while it takes *B* 90 days to collect his accounts. As it takes *A* 45 days (one and a half months) to make collections, he has $4,500 tied up in accounts receivable, while *B* has $18,000 in accounts receivable on his books. On the basis of interest at 6 per cent, it costs *A* $270 and *B* $1,080 to carry these accounts; *A* has therefore saved $810 a year over *B* in interest cost. This saving is equivalent to 0.8 per cent of sales. In actual practice,

the money may be worth more than 6 per cent—if used to take cash discounts on purchases, it may be worth from 12 to 36 per cent.

Interest is only a part of the cost of extending credit. In addition, there is the expense of keeping records of credit sales, of making collections, and of bad debt losses.

Collection percentages.—Monthly collection percentages are computed by dividing the collections made during the month by the accounts and notes receivable on the books at the beginning of the month. Thus if a dealer has $5,000 in accounts receivable on his books at the beginning of the month and collects $2,000 during the month, his collection percentage is 40. A survey covering nearly 6,000 manufacturers and wholesalers with annual sales of 9 billion dollars showed that 90 per cent of their sales were made on credit, and that the average collection percentage was 48 in normal times. This indicates that it took from 60 to 64 days from the end of the month in which the sales were made to make their collections.

Retailers make a smaller percentage of their sales on credit. In 1929, 21 per cent of their sales were made on open account credit, 13 per cent on installment credit, and 66 per cent for cash. Open accounts (ordinary charge accounts) are collected much more quickly than installment accounts.[2] During the depression a smaller proportion of retail sales were made on credit. This may have been due to a decline in the proportion of large durable articles sold, to a greater reluctance of people to go into debt, or to increased strictness on the part of retailers in granting credit. In 1933, approxi-

[2] At the end of the year, retail credit outstanding amounted to 5¼ billion dollars—2¼ billion dollars of open accounts and 3 billion dollars of installment accounts.

mately 27 per cent of retail sales were made on credit. In 1929, collection percentages on open accounts averaged about 42 per cent. During the depression collections were somewhat slower. Average percentages are shown in Table 35.

Bad debts.—Merchants selling on credit usually find some accounts uncollectible and must charge them off as bad debt losses. The percentage of loss from bad debts depends upon the class of people to whom credit is extended, the care used in selecting those to whom credit is extended, and the aggressiveness with which collections are made. The merchant who extends credit to poor risks must use aggressive methods in making collections in order to limit his losses. Bad debt losses may be stated as percentages of total sales or as percentages of credit sales. The latter is the more accurate method. Consider a merchant who has sales of $100,000, $40,000 of which are made on credit, and who has bad debt losses of $200. His percentage of bad debt loss is 0.2 when computed on his total sales, and 0.5 when computed on credit sales. Figures showing bad debt losses for a large group of retailers are shown in Table 35.

TABLE 35.—RETAIL BAD DEBT LOSSES AND COLLECTION PERCENTAGES, 1929–1934*

	1929	*1930*	*1931*	*1932*	*1933*	*1934*
Bad debt loss on open account sales	0.5	0.6	0.9	1.4	1.2	1.0
Bad debt loss on installment sales	2.3	2.8	4.1	6.7	4.1	1.8
Collection percentage on open accounts	42.7	41.3	38.9	36.2	36.7	41.9
Collection percentage on installment accounts	15.2	14.7	14.5	13.6	13.2	14.5

*Based on survey made by U. S. Dept. of Commerce.

Choosing the best credit policy.—Extending credit and making collections add to the seller's expense, yet they may also increase his sales and profits. Some sellers

charge high prices and extend liberal credit; losses and collection expenses may be high, and yet the higher prices and increased sales may make such a policy profitable. Other sellers find it profitable to sell at lower prices and sell only for cash, or to limit credit to good risks or extend credit only for short periods. The type of goods handled, the policies of his competitors, the customs in his trade or community, the kind of people he has for customers, and economic conditions should be considered in selecting the proper policy.

Chapter 21

Review Questions

1. What is meant by "Tests for Merchandising Efficiency"?

2. Name four such tests.

3. What is meant by the volume of sales per person? Per salesperson?

4. What is the relation between the volume of sales per salesperson and the merchant's expenses and profits? Why this relationship?

5. How can a merchant know the volume of sales made by each of his salespeople?

6. What factors limit the average volume of sales made by salespeople in retail stores?

7. How can a merchant increase the average volume of sales made by his salespeople?

8. What is the relation of sales training to the average volume of sales?

9. What is the relation between pay of salespeople and their volume of sales?

10. How should a merchant pay his salespeople to secure a high sales volume per person?

11. What is the relation between the arrangement of goods in a store and the volume of sales per salesperson?

12. How does a dealer's expense for rent compare with his expense for the salaries and wages of salespeople?

13. What is the danger of having too much space?

14. How can a dealer find out whether his cost of rent is too high?

15. If a dealer finds that his percentage cost of rent is too high, how can he find the cause and the remedy?

16. What is the relation of the location of a store to its rent cost?

17. Why should a merchant compute his volume of sales per square foot of floor space?

18. What are the merchant's uses of capital?

19. Why does a merchant sell goods on credit?

20. What is the relation between the prompt collection of accounts receivable and a merchant's expenses?

21. Why is the prompt collection of accounts desirable?

22. What is meant by bad debts?

23. How are monthly collection percentages computed?

24. How do depressions affect bad debt losses and collection percentages?

Problems

1. Underwood and Black conduct a retail service grocery store in a residential neighborhood of a town of 500,000 population. During the year they have sales of $60,000 and the following expenses: salaries for the two partners, $4,000; salaries of 4 salesmen, $4,800; salary of bookkeeper and telephone salesgirl, $900; salaries of two deliverymen, $1500; rent, $600; bad debt losses, $700; other expenses, $1,000; margin, $14,000.

(a) Compute the percentages of labor cost, rent cost, bad debt loss, total expenses, and profit.

(b) Criticize the conduct of the business.

2. Leonard and Blake conduct a retail hardware store in a city of 10,000 population. Their operating statement for the year shows the following: sales, $80,000; salaries of the two owners, $6,000; salaries of 6 salesmen, $6,000; salaries of office employee, $1,500; salary of delivery and stockman, $1,000; rent, $3,000; loss from bad debts, $200; other expenses, $5,000.

Compute the necessary expenses and criticize the operation of the store.

3. The Empire is a department store located in a city of 500,000 people. It occupies a four story and basement building, 80 x 200 feet. The first two stories and the basement are used for selling, and the two upper stories are used for stockrooms and offices. During the year, sales amount to $900,000. The Empire's operating statement prepared at the end of the year shows the following figures: inventory, January 1, $260,000; purchases, $460,000; inventory, December 31, $220,000; salaries and wages, $150,000; rent, $45,000; loss from bad debts, $4,000; advertising, $25,000; interest on capital investment, $24,000; other expenses, $35,000; accounts receivable, $150,000. Two-thirds of the sales are made on credit. The store has 80 employees, 50 of whom are engaged in selling.

Criticize the operation of this store.

Thought Problems

1. Why does the average volume of sales per person vary so widely in different types of stores? In different stores selling the same kind of merchandise?

2. What is the relation between the amount of space occupied and the way merchandise is displayed and the rate of stock turnover?

3. Why are most retail salespeople paid straight salaries or salaries plus bonuses on all sales over fixed quotas, rather than on a commission basis?

4. What kind of locations do the following retailers need: Grocery store? drug store? news stand? cigar store? millinery

store? men's clothing store? women's clothing store? coal yard? farm implement store? women's high-grade shoe store? jewelry store? hardware store?

5. When should an account be charged off as bad (uncollectible)?

6. It is said that a firm collection policy builds sales; that a person tends to buy from the store where he knows his account is paid and his credit is good; and that he tends to avoid the store where he knows his account is long past due. Is this true? Comment on the statement.

7. How can a merchant collect his accounts promptly without antagonizing his customers?

8. Should a dealer compute his bad debt loss percentage on his total sales or on his credit sales?

9. Is the number of dollars of sales per square foot of floor space a better index of the dealer's efficiency than the percentage cost of rent? Why or why not?

10. Why do retail grocers collect their accounts more quickly than retail clothing stores? Why are not groceries sold on the installment plan?

CHAPTER 22

Stock Turnover

Meaning of stock turnover.—Stock turnover measures the frequency with which goods are bought and sold. It is the relation of sales to the quantity of goods carried in stock by the merchant. Goods are bought, placed in stock, and sold. When the quantity sold equals the average quantity carried in stock, the merchant is said to have turned his stock one time. Stock turnover is usually stated as a certain number of times per year.

How stock turnover is computed.—The rate of stock turnover is computed by dividing the cost of goods sold by the average inventory (quantity of goods on hand) at cost. Thus if the cost of goods sold during a year is $20,000, and the average stock is $5,000 at cost, the merchant has turned his stock 4 times. Many dealers take inventory only once a year. When this situation exists, the average inventory figure is obtained by adding the inventory at the first of the year and the inventory at the close of the year and dividing by two. It is, of course, desirable to take stock monthly or quarterly, or to keep a continuous or perpetual inventory. The latter is known as "unit control" of stock.

Advantages of a rapid rate of stock turnover.—A rapid rate of stock turnover reduces the dealer's expenses, reduces the number of mark-downs, gives the consumer fresher goods, and often lower prices. It usually increases the dealer's profits.

Reduced expenses.—A rapid rate of stock turnover reduces the quantity of goods carried in stock in relation to sales; the reduced quantity, in turn, requires a smaller amount of capital and so reduces interest charges. Taxes and insurance on goods in stock are likewise lowered. A smaller stock reduces the amount of space needed by a merchant in which to conduct his business, which cuts down his expenses for rent, heat, and light.

A rapid rate of turnover also reduces a merchant's selling expenses. The dealer with a rapid rate of stock turnover has lower expenses and may therefore place lower prices on his goods. Low prices and fresh goods increase his sales. He usually has his stock well arranged, thereby enabling the salespeople to get the goods quickly. Because of fresher goods, lower prices, and better arranged stocks, his salesmen usually have larger volumes of sales than salesmen in stores which turn their goods slowly.

Reduced mark-downs.—The faster goods are sold, the less opportunity they have for going out of fashion or becoming soiled, stale, or shelfworn. Thus mark-downs are reduced. A rapid rate of turnover gets new fashions to the consumers more quickly and allows foodstuffs less time to wilt and decay.

Reduced margins.—The merchant with a rapid stock turnover often sells at lower prices than other merchants. He places low prices on his goods in the hope of increasing sales and his rate of stock turnover, and he hopes that the rapid rate of turnover will reduce his expenses and increase his profits. In order to speed up his turnover, the merchant often buys in smaller quantities. It is possible that this causes him to pay higher prices for his goods by the loss of quantity discounts or that his transportation costs are increased by the smaller ship-

ments. Whatever the reason, studies of the subject show that dealers with high rates of turnover have somewhat lower margins than dealers with slow rates of turnover.

Increased profits.—A rapid rate of stock turnover reduces both the merchant's margin and his expenses; but, as a rule, expense is reduced more than margin, so that profit is increased. Studies of operating statements show that increasing the rate of stock turnover is one of the surest ways of increasing profits.

Illustrative figures.—The effects of the rate of stock turnover on the margin, expenses, and profits of a group of department stores are shown by the figures in Table 36.

TABLE 36.—RELATION OF RATE OF STOCK TURNOVER TO MARGIN, EXPENSES, AND PROFITS OF DEPARTMENT STORES*

Rate of stock turnover:	*Under 2*	*2–2.9*	*3 and Over*	*Average of All Stores 2.4*
		(Percentage of Sales)		
Margin	29.9	29.4	28.3	29.3
Salaries and wages	17.0	16.2	14.6	16.1
Rent	4.2	3.7	3.8	3.9
Interest	3.5	2.4	2.1	2.9
Other expenses	7.6	7.5	7.0	7.4
Total expenses (including interest)	32.3	29.8	27.2	30.0
Profit or loss (over interest)	*2.4 loss*	*.4 loss*	1.1 profit	*0.7 loss*

*226 department stores with sales under $500,000 for 1929.

It will be seen from the figures in this table that the margin decreased from 29.9 per cent for stores turning their stock less than twice a year to 28.3 per cent for stores turning their stock three or more times per year. Total expenses, including interest, declined from 32.3 per cent to 27.2 per cent. This decline was equal to 5.1

per cent of sales. As the expenses declined much faster than the margin, those stores turning their stocks rapidly had larger profits than the stores turning their stocks slowly. The stores with less than three turns a year showed a loss after paying interest; this meant that they failed to earn a fair rate of interest on their investment. Only those stores turning their stocks three or more times a year earned profits larger than the interest on their capital.

How to increase rate of turnover.—The dealer can increase his rate of stock turnover by decreasing the amount of goods carried in stock, by increasing his sales and carrying the same or less stock, or by both increasing sales and decreasing stock.

Decreasing stock.—The merchant can decrease his stock in two ways. He can continue to carry the same number of articles in stock but carry a smaller quantity of each article, or he can decrease the number of articles carried.

Small-order buying.—In order to reduce the total value of the stock and yet carry as many different items as ever, it is necessary to buy in smaller lots and buy more frequently. This is called small-order, hand-to-mouth, or current-need buying. Suppose that a dealer has daily sales of 24 cakes of a certain brand of soap which he has been buying 10 cases at a time. Each case contains 144 cakes. Each purchase lasts for 60 days. In order to increase his rate of turnover, he may buy one case at a time and place an order every six days. To keep from running out of stock, the new order may be placed for delivery when the new case is one-half gone. The dealer thus carries a three days' reserve and can continue to supply his customers if delivery is delayed for three days.

This method of buying enables the dealer to reduce the size of his stock without losing sales. A good system of stockkeeping and ordering, however, is necessary to the success of this system. These are discussed in the next chapter.

The merchant often hesitates to buy in small quantities if this involves higher prices by losing quantity discounts. It is often profitable to buy in large quantities to secure the lower prices. However, after careful study many dealers have come to the conclusion that a rapid rate of turnover is preferable to ordinary quantity discounts.

Since style merchandise goes out of fashion quickly, large purchases often mean that some of the goods must be closed out at drastic price reductions, and such reductions may easily outweigh the quantity discounts. Perishable goods, such as fresh fruits, vegetables, flowers, and meats, spoil quickly. The merchant who overbuys suffers either from spoilage or from price reductions made to sell the goods before they become unsaleable.

On the other hand, staple, non-perishable goods, such as canned foods, nails, overalls, and soaps, can be carried in stock for considerable periods with little risk of fashion changes or spoilage. The merchant can buy such goods in large lots when quantity discounts are offered. He should, however, weigh the price advantage against the expenses incurred in carrying the goods until sold—rent, interest, taxes, insurance, handling costs, and the losses from theft.

Let us consider the case of a merchant who sells 1,200 cases of canned corn per year, or 100 cases per month. Let us assume that this corn can be bought from the canner on September 1 for cash at $2 per case, while if

it is bought from the wholesaler as needed throughout the year, the price will be $2.30 per case, or a total of $2,760. If the dealer buys the corn on September 1, he will need only $2,400. The saving in price is $360. The $2,400 will be invested for an average of 6 months, if the corn is sold evenly throughout the year; therefore if he can borrow money at 6 per cent, the cost of the interest will be $72. Clearly, if interest is the only expense, the merchant should buy the year's supply.

Other expenses, however, are involved. The warehouse space necessary to store the goods, the cost of placing them in the warehouse and taking them out, and the insurance on the goods must be considered. The dealer must also assume the risk that the price of the corn will drop before he sells all of it and that he will have to take a loss on the amount in stock when the price drops. The merchant may be able to use his money more profitably in other ways, for example, in taking cash discounts. After all these factors are considered the dealer may conclude that it is wise to buy the corn in small lots from the wholesaler.

Small-order buying, if properly used, can speed up turnover and reduce expenses. It is possible to carry as complete stocks as when goods are bought in larger quantities, and sales may actually be increased by having fresh goods in stock at all times. If, however, small-order buying is overdone or poorly executed, the dealer may have incomplete stocks and may lose sales. A good stockkeeping system is needed to enable the system to be used successfully.

Carrying fewer articles.—Another method of reducing the amount of stock carried is to stop handling the slow-selling articles. When a merchant studies his sales, he usually finds that he has in stock many items for which

he has very little demand. A grocer may handle 12 brands of coffee and find that 85 per cent of his sales are made from three brands. One drug store formerly carried 50 brands of talcum powder and 75 brands of soap. It dropped 30 brands of talcum powder and 50 brands of soap and reported little or no loss in sales. A large drug store in New York City formerly had sales of $700,000 and carried some 20,000 items in stock with an average inventory value of $70,000. The number of items was reduced to 13,000. This reduced the investment in inventory to $50,000, and the smaller inventory increased its sales to $1,000,000.

Many successful merchants have stopped carrying the slow-selling articles—have "cut out the shelf warmers." They have studied their sales records and have stopped handling the articles, brands, colors, and sizes that have little demand. They give their attention to the popular, fast-selling items. This has been done by many chain stores. These merchants say that it is poor business to carry items that sell so slowly that they are unprofitable—that it is better to lose a sale now and then than to lose money on a lot of slow-selling merchandise. They say: "Let the customer seeking the unusual article go elsewhere, or order the desired article for her."

Another method of reducing the number of articles carried in stock is to reduce the number of price lines. Some dealers carry articles in stock at so many different prices that the customers are confused, and they often find that sales increase when they put all of their goods into a few price lines. Some stores carry such goods as dresses, suits, and shoes, at only one, two, three, or four different prices.

Danger in reducing the number of articles carried.—Reducing the number of articles carried in stock is dan-

gerous if done by guess or if carried to the extreme. The dealer reduces the number of brands carried and finds that he can usually substitute one of the brands in stock when a discontinued brand is requested. He, however, has no way of knowing how many of his customers go to other stores when they next want to purchase the discontinued brand. Suppose a store that carried 12 brands of coffee discontinues the 8 slow-selling brands. Most of the customers who have previously bought the discontinued brands of coffee buy one of the four popular brands and are satisfied. Some, however, feel that their favorite brand has a superior flavor and may not like the substitute brand. When they next want coffee, they go to a store that has their favorite brand, and while they are in this store, they are very likely to buy many other articles besides coffee. Carrying a full line of goods is a good way of attracting customers.

In the case of shopping goods, large stocks are especially desirable, as shoppers like to make their selections from large assortments. A woman wants a dress. One store has only a few dresses of her size, none of which seems to suit her. She goes to another store that has a large number of dresses in her size. She may buy a dress just like one that she saw at the first store, yet the first store lost the sale. Merchants selling shopping goods should carry stocks large enough to make good displays and create favorable impressions on their customers.

The number of items carried in stock may be profitably reduced under some conditions. A store must, however, use common sense in discontinuing slow-selling articles. In the case of articles that are more or less staple, as coffee, talcum powder, and soap, the demand for particular brands may depend largely upon the

whims of the consumers. For example, when customers are induced to try different brands, they may find they like them as well as the brands formerly used; or, again, it may make little difference to the consumers whether they buy products in 10 or 12 ounce containers, one of which sizes may be eliminated.

The number of articles carried may be reduced when the dealer has spread his capital over too many lines. The garage adds the agency for a radio, the grocery store adds automobile tires, and the drug store carries electrical merchandise. In such cases the dealer is not usually equipped either to sell or to service the goods. He does not carry enough stock to attract customers, and his salesmen do not know enough about the goods to talk about them intelligently. Many stores have added new lines until their stores are literally "junk shops." There are thousands of dealers who should reduce the number of lines of goods which they are trying to sell.

The dealer should discontinue those articles for which there is little or no demand among his customers. An example was a city drug store which had veterinary capsules on its shelves.

The dealer may purposely eliminate the slower-selling items with a full knowledge that he cannot satisfy everybody. He expects to secure a rapid rate of stock turnover and reduce his expenses and selling prices. He makes a bid for business on the basis of low prices. He attracts customers by his prices, sells them the fast-moving goods, and lets them go elsewhere for the slower-moving articles. This policy is best adapted to stores located in busy shopping sections.

Advantages of full stocks.—The store with complete stocks attracts customers who want articles not carried by other stores, and it has an opportunity of securing

them as regular customers for all of its goods. It secures a reputation for having a complete stock. Because the automobile has made trade mobile, people who do not find what they want at one store can easily visit other stores.

Many of the grocery chains led in reducing the number of articles handled and bidding for business with low prices on the fast-moving staple articles. Some of them, however, have definitely reversed their policy and increased the number of articles carried in stock.

Increasing sales.—The merchant can increase his rate of stock turnover by increasing sales and yet carrying the same quantity of goods in stock. He may increase his sales by securing better trained salespeople, by doing more and better advertising, by better window displays, and by improving the arrangement and display of goods in his store. These methods may be used regardless of stock turnover. However, the two methods of increasing sales that are most directly connected with stock turnover are to have lower prices and to secure fresher goods.

Lower prices.—Some dealers lower their prices in order to increase their sales and thereby increase their rate of stock turnover, and the higher rate of turnover is counted upon to reduce expenses and increase profits. Even if the percentage of profit is not increased, the number of dollars of profit may be larger. This method of increasing profit has been, and is being, used successfully; however, many dealers have attempted it unsuccessfully. If the lower prices do not increase sales, if increased sales do not increase turnover, if increased turnover does not reduce expenses more than gross margin is reduced by the lower prices—if the attempt fails in any of these respects, the policy will be unsuccessful.

TABLE 37.—TYPICAL RATES OF STOCK TURNOVER*

RETAILERS

Type of Store	*Times per Year*
Groceries	10.0 to 15.0
Jewelry	0.8 to 1.0
Shoes	2.0 to 2.5
Hardware	2.0 to 2.5
Men's clothing	2.0 to 3.0
Tires and automobile accessories	3.5 to 5.0
Building materials	3.0 to 4.0
Stationers	2.7
Large department stores	3.0 to 4.0
Small department stores	2.0 to 3.0
Drug	2.0 to 3.0

WHOLESALERS

Type of Store	*Times per Year*
Grocers (service)	5.0 to 8.0
Drugs	4.0 to 5.0
Automotive equipment	3.0 to 4.0
Hardware	3.0 to 3.5
Plumbers	4.0
Dry goods	3.5 to 5.0
Shoe	4.0 to 6.0

*Figures are from the Harvard Bureau of Business Research and from estimates from Census figures.

TABLE 38.—EFFECT OF RATE OF TURNOVER ON MARGIN, EXPENSE, AND PROFIT

	PERCENTAGE OF SALES		
Rate of Stock Turnover	*Margin*	*Expense Including Interest*	*Profit over Interest*
Retail grocery stores:			
Under 7	19.1	19.0	0.9
7.0–11.9	19.0	17.0	2.0
12 and over	18.8	16.7	2.1
Retail jewelry stores:			
Under 0.8	42.3	42.5	*0.2 Loss*
0.8–1.1	40.5	39.1	1.4
1.2 and over	39.4	35.9	3.5
Wholesale drug stores:			
Under 3.5	17.4	16.9	0.5
3.0–4.4	17.5	15.5	2.0
4.5 and over	16.4	14.9	1.5
Wholesale plumbing stores:			
Under 3	21.4	23.7	*2.3 Loss*
3.0–5.0	20.4	21.7	*1.3 Loss*
Over 5	19.0	17.8	1.5

Typical rates of turnover.—Typical rates of stock turnover for various types of dealers are shown in Table 37 (page 383).

Turnover increases profit.—The figures in Table 38 (page 383) show how a high rate of stock turnover decreases expenses and increases profits for groups of stores.

Chapter 22

Review Questions

1. What is meant by stock turnover?

2. How is the rate of stock turnover computed?

3. What are the advantages of a rapid rate of stock turnover?

4. How does a rapid rate of stock turnover decrease expenses?

5. Name seven expenses that are reduced by increasing the rate of stock turnover.

6. What is the relation of the rate of stock turnover to selling expenses?

7. What is the relation of the rate of stock turn to markdowns?

8. What is the relation between the rate of stock turn and margin?

9. What is the relation between the rate of stock turn and profit?

10. How does the rate of stock turn affect the margin, expense, and profit of department stores?

11. How can a dealer increase his rate of stock turn?

12. What is meant by small-order buying? What are other names for the practice?

13. What are the advantages of small-order buying?

14. What are the disadvantages of small-order buying?

15. Under what conditions should a merchant reduce the number of articles carried in stock?

16. What are the dangers in reducing the number of items stocked?

17. What is the common sense way of reducing the number of items carried?

18. What are the advantages of carrying complete stocks? What is its psychological or goodwill value?

19. How may a dealer increase his sales?

20. How may lower prices be used to increase stock turnover? Is this method always successful in increasing profits? Why or why not?

21. What is the relation between the rate of stock turnover and the freshness of a dealer's stock?

22. John Smith, retail grocer, during the year has sales of $40,000; purchases of $28,000; opening inventory at cost of $8,000; and closing inventory at cost of $6,000. Compute the rate of stock turnover. Is this a satisfactory rate?

23. William Oliver conducts a retail tire and automobile accessory store. During the year his sales amount to $80,000. He buys $70,000 worth of goods during the year. He has an inventory worth $30,000 at cost on January 1, worth $50,000 on July 1, and worth $40,000 on December 31. Compute Oliver's rate of stock turn. Is he turning his stock as fast as he should?

24. The Wholsum Company operates a wholesale drug business. During the year its sales amount to $10,000,000. It purchases $8,500,000 worth of merchandise during the year. Its five quarterly inventories are as follows: Jan. 1, $1,200,000; Apr. 1, $1,600,000; July 1, $1,500,000; October 1, $1,300,000; Dec. 1, $1,190,000. Compute the rate of stock turnover. Is this a satisfactory rate?

Thought Problems

1. Why do so many dealers "take stock" (an inventory) only once a year? Is this a good practice? Why or why not?

2. Should inventories be taken when the inventory is high or when it is low?

3. How should a merchant determine when (under what conditions) to practice small-order buying?

4. What are the advantages and disadvantages of carrying goods only in definite price lines? This policy often means that the margin on different articles varies widely. The policy is therefore often in direct opposition to that of making each article carry its own expense plus a fair profit.

5. Is it possible for a dealer to carry full assortments of goods and at the same time turn his stock rapidly? Discuss. Does the answer to this question depend somewhat upon the dealer's location and his volume of sales?

6. How does the amount of goods necessary to satisfy customers vary with the type of merchandise? With the type of customers?

7. Which can use small-order buying to better advantage, a dealer in a large city or one in a remote rural district?

8. Why do some of the chain grocery stores carry more articles in stock than they did a decade ago?

9. The store with a complete stock of goods often has a slow rate of turnover and high expenses. It is hard for such a store to meet the prices of stores with a limited stock and a quick turnover. Under what conditions should a dealer carry a large number of articles in stock, if this means relatively high operating expenses?

10. It has been proposed that the retailers in the smaller cities (say in cities of under 50,000 population) form a working agreement as to the lines of goods that each will carry. One shoe dealer might agree to carry a full line of narrow shoes; another, a complete line of wide shoes; a third, a full line of arch support shoes. The stationery store might agree to discontinue sporting goods, while the sporting goods store would agree to discontinue radios and musical instruments, and the music store to discontinue books and magazines. In this way the town would have complete lines of all classes of goods and so serve its customers better. The convenience and

availability of the goods would draw more trade from the surrounding territory and so increase the city's trading area.

Evaluate this proposal. What are some of the difficulties to be faced in securing and maintaining such an agreement?

11. John and Walter Brown operate a wholesale grocery business in a city of 50,000 population. During the year, their sales were $2,000,000; their purchases, $1,950,000; their inventory on Jan. 1, $250,000; their inventory on Dec. 31, $450,000; their expenses, $272,000, including interest at 6 per cent on their $600,000 capital; and the salaries for each of the owners, $20,000. Compute the rate of stock turnover and criticize the conduct of the business.

Chapter 23

Stockkeeping

Objects.—The objects of stockkeeping are: (1) to carry full assortments of goods; (2) never to be overstocked in any item; and (3) to limit the investment in stock and speed up the rate of turnover. The ideal is always to have on hand every item which is properly included in stock when the customer asks for it and never to be overstocked nor to have goods which become unsaleable because of spoiling or style changes. This ideal may never be fully attained, but the merchant should come as close to it as possible.

Model stock.—A model, or balanced, stock is a stock that contains all of the items which the dealer carries in the right proportions. The stock should be properly assorted as to types or kind of goods, models, patterns, styles, sizes, colors, and prices. It has been said by an eminent merchant [1] that a retail store should carry complete assortments of goods in three, and only three, price lines. The idea is that a store cannot cater to all classes of people, and that it should select its class of trade and buy goods at the proper prices for this class of trade. This idea does not, of course, apply to a store in a smaller town which must serve all the people in the community.

A stock can be heavy (fat) or light (lean) and complete or incomplete. The present ideal is to have the stock complete and as light as practicable, taking into

[1] Edward A. Filene.

consideration such factors as quantity discounts on purchases, possible delays in delivery, and dependability of sellers.

One wholesaler [2] gives the following assortment of sizes of men's $1.45 shirts for a retailer who carries a minimum of 90 shirts at this price.

Size	*Number of Shirts*
14	6
14½	12
15	24
15½	21
16	9
16½	12
17	6
	90

The dealer who carries 180 shirts in stock may double the number of each size carried in stock.

Finding the model stock.—The above assortment of shirt sizes was determined by analysis of the wholesaler's sales, stocks carried by retailers in various communities, and salesmen's orders for a period of two years. A dealer's stock may be based upon an analysis of his past sales and upon predicted changes in sales based on changes in styles, changes in the purchasing power of the community, and shifts in consumer demand. A new dealer may set up a model stock from information concerning the experience of other dealers, perhaps secured from wholesalers or manufacturers.

In analyzing past sales, the dealer should consider the trend in sales to see if the sales of a particular article are increasing or decreasing. With staples, such as flour, canned foods, hardware, and work clothing, the trend of past sales gives an accurate basis of forecasting future

[2] Ely & Walker Dry Goods Co.

sales and hence of establishing model stocks. The past sales records should be so analyzed as to show seasonal sales of each article.

In the case of fashion goods, past sales records will not tell the dealer the colors, fabrics, and designs that will be popular in the future. For example, past sales records will not tell him how many blue, black, and red dresses he will sell during the coming season; they will, however, enable him to forecast the total number of dresses he will sell, the number of each size, and the number at each price. In wearing apparel, past records enable the dealer to set up a model stock as to sizes and prices. Colors and silhouette may change, but people still pay about the same prices for their garments (after allowances are made for changes in the price level). Sales records also enable the dealer to follow the trends in fashions demanded by his customers.

Stockkeeping systems.—In order to control stock, the merchant must have a stockkeeping system. The following are some of the more important systems: annual inventory with inspection of shelves, and want list; tickler system or frequent physical inventories; unit control or the perpetual inventory system; and dollar control.

Annual inventory with inspection and want list.—An inventory is an actual count of all of the articles in stock. It is often called "taking stock." An annual inventory, with frequent stock inspections and a want list, is one of the most widely used methods of stock control; in many cases, however, it gives the merchant little actual control over stock. Under this method the dealer inspects his shelves from time to time to see what items are short. His salesmen, when making sales, notice items that are running low and enter this information on the want list.

Too often, however, they do not notice the condition of the stock or they forget to make the entries, and the goods are called for by a customer before an entry is made on the want list. In such cases, the dealer loses not only sales but also the goodwill of his customers.

The merchant can compute his annual sales of various items from his annual inventory figures and from his purchase invoices. This *can* be done, but many thousands of dealers do not do it. Even when sales are computed in this way, the dealer has no information as to the time of the year when sales are made; he must trust his memory for this information. The dealer, however, can set up satisfactory model stocks for goods that sell regularly throughout the year.

Dealers using the system of an annual inventory with inspection and want list are usually overstocked in certain articles, while they are often out of items requested by customers. This method can, however, be made fairly effective if the dealer has his stock well arranged, if he carefully and frequently examines his shelves, and if the salespeople are very careful to report all items that are low. One store has red flags or markers on its shelves and drawers. These are normally kept turned down out of sight. Whenever a salesman finds that some item is getting low, he turns the flag up—without delaying the customer and without waiting to finish serving the customer. The merchant then goes over his shelves daily, comparing the stock of all items marked with red flags with his model stock figures and placing orders for all that are down to the minimum quantity.

Tickler system.—The tickler system consists of taking frequent physical inventories—usually every month or every week; many stores take monthly inventories; the salespeople may remain a few minutes each night and

make a detailed count of all items in one department or one line. Other stores may have the stock inventoried during regular hours when there are no customers in the department. A large store may have two or more people who spend all of their time inventorying its goods. Frequent inventories often lead to simplified stocks and to a better arrangement of goods, as the employees devise

LINE OF GOODS (OR DEP'T)										
ARTICLE	SIZE OR STOCK No.	UNIT	COST	SELL-ING PRICE	SOURCE	IDEAL STOCK	DATE		DATE	
							ON ORDER	IN STOCK	ON ORDER	IN STOCK

Fig. 29.—Form for stock record. This form has space for the description of each article—size or stock number, stockkeeping unit, cost, selling price, source of supply, and ideal stock—on each line. Many articles can be entered on one card or sheet. Space at the right is provided for successive inventories, which are then compared with the ideal, or model, stock. A wider form than that shown here should be used so that several inventories can be entered on one line. All articles on one card are to be inventoried on the same date.

methods of reducing the work. Overstocks are disposed of and the rate of turnover is increased.

The unbroken packages are counted as such, and only the items actually on display or in broken packages need be counted individually. Fixtures are often devised so that a compartment on a table, a section of shelf, a drawer, or a bin holds a definite quantity of an article. The number of vacant places are noted and the amount of each item on display is determined. To illustrate, if a section of a table holds 72 items and there are 4 vacant spots, the clerk knows that 68 items are on display. If these same goods come 144 in a box, and 3

unbroken boxes are in stock, then there are 500 items in stock. At times, goods of uniform weight are weighed and the number is computed in this way.

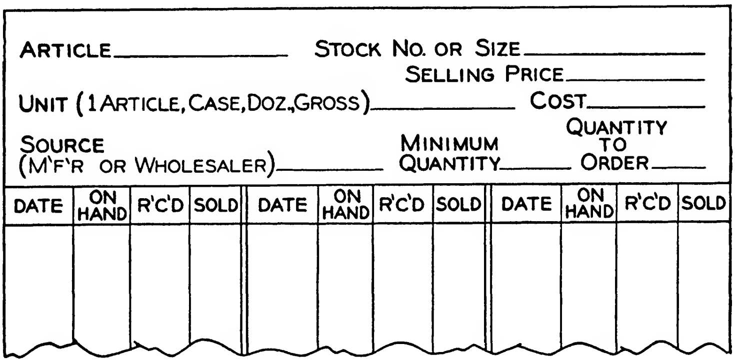
The dealer compares the number of items in stock, as shown by his inventories, with the number which should be in stock, as shown by his ideal or model stock and places orders accordingly. When the ideal stock is determined, it may be entered on the left hand of the stock record, and the columns at the right may be used for entering the successive inventory figures. The dealer must consider the number of articles *on order* (ordered but not received), as well as the number actually in stock, before he places additional orders. (See Fig. 29.)

Frequent inventories enable the dealer to compute the sale of each article for each season of the year. This enables him to have large stocks when the goods are most in demand and small inventories when the goods are least in demand. The inventory figures also enable him to compute sales trends during the year. If he takes monthly inventories, he can watch the sales trend of each article month by month, and increase or decrease the quantities purchased accordingly.

Unit control, or perpetual inventory.—Unit control is a method by which a concern keeps a constant account of the number of all articles in stock. In order to start the system, the number of each article in stock is obtained from a physical inventory. Every time any goods are received, the number is added to the number in stock; when any goods are sold, the number is deducted. Thus if a store had 25 cartons of ½ inch black typewriter ribbons in stock, and 100 cartons are received, the 100 is added to the 25 and the record shows 125 cartons in stock. If 15 cartons are sold, 15 is deducted, and the record shows 110 cartons in stock. This method is

usually called a perpetual inventory by factories and unit control by retail stores. Fig. 30 shows a simple form used for this kind of inventory method.

The balance shown on the inventory record must be checked from time to time with the amount actually in stock as found by a physical inventory. The balance shown on the stock sheet may be adjusted when the



ARTICLE ________ STOCK NO. OR SIZE ________

SELLING PRICE ________

UNIT (1 ARTICLE, CASE, DOZ., GROSS) ________ COST ________

SOURCE (M'F'R OR WHOLESALER) ________ MINIMUM QUANTITY ________ QUANTITY TO ORDER ________

DATE	ON HAND	R'C'D	SOLD	DATE	ON HAND	R'C'D	SOLD	DATE	ON HAND	R'C'D	SOLD

Fig. 30.—Form for unit stock control. A separate card or sheet is used for every article. Information as to accounting unit, stock number or size, cost, etc., is entered at the top of the card. Only one line is needed to enter a day's transactions. As the form has a number of columns, one sheet will last for a considerable period of time.

periodical inventory is taken, or the stock clerk or clerks may spend a part of their time each day in counting the number of various items in stock. Records may be kept of sizes, models, colors, prices, and makers of the goods.

Information concerning receipts may be obtained from the purchase invoices. Information as to sales is obtained from price tags or labels on the goods which are torn off when sales are made, or from the sales slips. When the sales slips are used, the salespeople must be very careful to write the necessary information as to stock number, size, or color on the sales slips.

Unit control may be used with goods on display or only with reserve stock in the stockrooms.

Advantages of unit control.—Unit control enables the merchant to know at all times just how much of each item is in stock. The stock clerk watches his records and whenever the balance of any article on hand is less than the specified minimum quantity, he fills out an order blank or notifies the buyer. When the system works perfectly, the merchant is never out of stock, unless a large or unusual demand occurs or unless his supply of goods is delayed unexpectedly. The system likewise enables the merchant to watch his sales more closely than is possible with any other system. Items that are selling very slowly may be discontinued, and articles with increasing sales are bought in larger quantities.

Disadvantages of unit control.—The two principal disadvantages of unit control systems are high cost and inaccuracy. The clerical work involved in keeping records involves expense. The cost of operating a unit control system runs from 0.2 to 1 per cent of sales.[3] It is sometimes said that it is practical to operate a unit control system for display stock when the selling price of the items is $5.00 or more. With smaller items the cost is said to be prohibitive. If the store keeps reserve stocks, unit control can be used for the reserve stocks—even for small items, such as hosiery and toilet articles. Entries on the stock records are made only when goods are received or taken from the reserve stock. As goods are usually taken from the stockrooms in fairly large amounts, the cost is not excessive. In order to reduce the cost of keeping a perpetual record of goods on display, various short-cut methods may be used. The tags or

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[3] Nystrom, Paul H., *Economics of Retailing,* 1930 ed., Vol. 2, p. 428.

tickets for goods sold are collected daily and sorted, and one entry is made for all sales made during the day. To save the work of making a new entry every time a sale is made, the number of items on hand may be represented by marks, thus, //////////. When an item is sold it is crossed off, thus, /////////X. The number of uncrossed lines shows the quantity in stock.

Some concerns have discontinued the perpetual inventory because it was so inaccurate that they felt it was useless or not worth its cost. Salespeople may fail to drop the tags or tickets into the boxes, or may give the wrong information on the slips so that the stock clerk deducts the sale from the wrong article. The stock clerks may make errors. Returned goods also give trouble. Goods are charged off the record when sold, and if the goods are returned, a record of this fact must be given to the stock clerks or the record will be inaccurate. If the goods are accepted on the sales floor and returned to stock without a record going to the stockkeeping department, the stock record is bound to be wrong. When it is remembered that in some shopping lines sold by downtown stores, from 5 to 25 per cent of the goods are returned, it is seen that this is no small problem. If the unit control method is used, it should be used with great care so that it will be accurate.

Unit control used by a chain of stores.—A chain of women's apparel stores has a unit control system, all records being kept in the main office. Each store mails in daily tags from all garments sold during the day so that the head office constantly knows how many garments of each design, size, price, and color are in each store. The sales of each store are watched closely and the buying of goods becomes almost an exact science. This chain

was reported to have had the greatest increase in sales of any national chain in 1930—32.7 per cent.[4] Other chains use tabulating machines and punched cards, a card being mailed to the central office daily for each item sold.

Dollar control.—Dollar control (or financial merchandise control) consists of keeping account of the goods in stock in dollars rather than in units, or pieces, of merchandise. When goods are received, they are entered on the stock record at their sales value. When they are sold, their value is deducted and the balance shows the value of the goods in stock at selling prices. In using this system, departments are broken down into lines of classifications. For example, a small store divides its men's furnishings into shirts, neckwear, gloves, socks, underwear, nightwear, and miscellaneous. The stock record shows the value at selling prices of the goods in each line at all times. If the stock of shirts is too large or too small (as shown by comparison with the model or planned stock figures for this date), the dealer must inspect or count the goods to find which patterns, sizes, or colors are out of proportion. A larger store may divide its shirts into collar and neckband styles and then divide each style according to prices and sizes. The record may show that the merchant has too few $1.45 collar-attached shirts in size 15. He must then inspect his stock to find what colors or patterns are short.[5]

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[4] *The Business Week,* March 11, 1931.

[5] Dollar control is used with the retail method of inventory, under which stock records are kept at selling prices and not at cost. This method facilitates taking stock. When the inventory is taken at cost, it is necessary to decide the costs on all merchandise, a procedure which takes time and often causes errors. Dollar control is now generally used in the more progressive retail stores, but it must be used with great care, as accurate records must be kept of all mark-ups and mark-downs.

Advantages of dollar control.—With dollar control a record is kept of the value of goods in each classification at all times. Dollar control costs much less than unit control, because only the total values of purchases and sales are entered. A classification may contain several dozen or several hundred different items. With unit control the sales of each of these items must be recorded, whereas with dollar control only the total day's sales in the classification is entered on the stock record. Dollar control is thus applicable to small goods where the cost of unit control is prohibitive. Dollar control fits in nicely with the operation of a store's budget.

Disadvantages of dollar control.—Dollar control does not give complete control of stock. The value of the goods in a classification may be satisfactory, and yet the stock may be poorly assorted. The dealer may have the proper investment in $1.45 shirts, size 15, but have a poor assortment of colors. To be really effective, dollar control must be supplemented with frequent inspections of the stock. It may be used with unit control or any other method of physical stockkeeping.

Short-cut methods.—Some short-cut methods are used by dealers who want to prevent out-of-stock reports and yet save the cost of a complete stock control system. One method is to label the minimum quantity which it is safe to carry. Thus, if one case is the minimum quantity, a label or card is placed on the case at the bottom of the pile or on the case at the rear of the shelf. When the salesman or stock clerk opens this case, he drops the label into a box and the buyer knows that an order should be immediately placed so that a new supply may be received by the time the case is sold. The red flag system mentioned above was used for the same purpose.

Chapter 23

Review Questions

1. What is meant by stockkeeping?

2. What are the objects of stockkeeping?

3. What is meant by a model stock?

4. What is meant by a light inventory? A heavy inventory? A complete inventory? An incomplete inventory? A balanced inventory? An unbalanced inventory?

5. How should an established dealer determine the goods needed for a model stock?

6. How may a new dealer (or an old dealer who does not have the necessary past records) determine the goods needed for a model stock?

7. Can a model stock be fixed for style goods?

8. What are the important stockkeeping systems?

9. What is the most widely used system among retailers?

10. What is a physical inventory?

11. Can a satisfactory stock control system be operated when an inventory is taken only once a year? If so, how? If not, why?

12. What is a tickler system of stock control? How is it operated?

13. Can the tickler system be made effective without excessive cost?

14. What is unit control? Explain its operation.

15. What are the advantages of unit control?

16. What are the disadvantages of unit control?

17. How may a unit control system be used for a chain of stores located in widely separated towns?

18. What is meant by dollar control?

19. How is a dollar control system operated?

20. What are the advantages of dollar control?

21. Name the disadvantages, or limitations, of dollar control.

22. How can goods in stock be labelled to prevent out-of-stock reports?

Thought Problems

1. Which system or systems of stock control are adapted to the needs of the following types of retail stores: large department stores; large hardware stores; medium sized drug stores; small grocers; medium sized shoe stores; small women's clothing stores; small men's furnishing stores?

2. Which system is adapted to the needs of a wholesale grocer? A wholesale hardware dealer?

3. MacMillan Bros. conduct a retail hardware store in a town of 5,000 population. They have taken stock only once a year, and they depend upon inspections of the stock or want slips to tell them when they should order additional goods. The traveling salesmen often inspect their shelves and tell them what they need in their lines. They have many more goods than they need, their turnover being very little more than once a year. In spite of this, they must often tell customers that the desired goods are out of stock. It often happens that the goods are actually in the store or stockroom but are misplaced or hidden under other goods. The brothers realize their entire stockkeeping system needs improving.

They ask you to work out a tickler system adapted to their needs. Describe the system which you would recommend and draw up the necessary stockkeeping forms. How would you go about setting up or determining their model stock?

4. Johnson & Edwards, Inc., operates a men's clothing store. They want to install unit control for suits, overcoats, and shoes, and dollar control for their furnishings.

(a) Draw up the proper system for their coats and suits, showing samples of any stockkeeping forms needed.

(b) Do the same for their shoes.

(c) Do the same for their furnishings.

(d) Show how they should determine their model stocks.

Chapter 24

Stock Arrangement and Display

Objects.—The objects of stock arrangement and display are to increase the sale of goods and to have the goods easily accessible to the customers and salespeople.

Arrangement.—In laying out his store, the merchant wants to arrange his goods so that the profitable goods will be given the best locations; so that the store will have an attractive appearance; so that customers will be drawn far enough into the store to see other goods than those for which they entered; so that the goods will be convenient to the customers; so that salespeople can obtain the goods quickly, display them properly, and wrap them and make change in the minimum time; so that the sale of new goods can be promoted; so that the necessary privacy is afforded customers in selecting such goods as wearing apparel; and so that store services can be properly handled.

Location and rent.—The front part of the store is the most valuable part of the building. In a building 100 feet deep, the front 10 feet are estimated to represent about 25 per cent of the value of the entire first floor. The next 20 feet represent 25 per cent of the value; the next 30 feet, 25 per cent; and the rear 40 feet, the remaining 25 per cent. Thus if a store room 40 x 100 feet rents for $4,000 a year, the average rent is $1 per square foot. The front 10 feet are worth $1,000, or $2.50 per square foot. The next 20 feet have a value of $1,000, or

$1.25 per square foot. The next 30 feet have a rental value of $1,000, or 83⅓¢ per square foot, while the rear 40 feet have a rental of $1,000, or 62½¢ per square foot. In a store of two floors, the first floor is usually assigned 65 per cent of the rent and the second floor or the base-

Courtesy National Retail Hardware Assn. and U. S. Chamber of Commerce.

Fig. 31.—Old type of hardware store before remodeling.

ment 35 per cent. In a store with more floors, the main floor bears a smaller percentage of total rent.[1]

Because of the high value of the space near the front of the store, goods are often placed there which have a

[1] Various rules have been worked out for assigning value to lots of different depths. The Hoffman Neill rule takes a lot 100 feet deep as 100 per cent, and expresses the value of other depths as percentages. Thus one foot has a value of 6.8 per cent; 5 feet, 17.3 per cent; 10 feet, 26.0 per cent; 20 feet, 39 per cent; 30 feet, 49.5 per cent; 60 feet, 74.2 per cent; 80 feet, 87.7 per cent; and so on up to a 200 foot lot which has a value of 130 per cent.

high volume of sales per square foot or which carry a high margin. In a department, clothing, or dry goods store, the space near the front door is often used for hosiery, men's furnishings, lingerie, jewelry, handbags, gloves, toilet goods, novelties, handkerchiefs, furs, or goods on special sale. The front space may also be used to build sales for new goods or goods which do not seem to be selling as they should. Impulse goods are often placed near the front of the store so that customers will see them while going to the rear of the store for shopping goods or for staples.

Appearance.—In order to secure a pleasing appearance, such goods as overalls and knit underwear are usually kept away from the front entrance. Goods of attractive colors and pleasing appearance are often placed near the front and along the main aisles. Low fixtures are now generally used so that the customer can get a view of the entire floor from any one place. Clean merchandise and fixtures, bright lights, and colorful displays add to the attractiveness of a store.

Drawing customers deep into the store.—In order to draw customers deep into the store, the merchant often places his shopping goods, articles on sale at especially low prices, or staple necessities well toward the rear or on upper floors. Because customers expect to devote some time to the selection of shopping goods, they usually do not object to going to the rear of the store or to upper floors for them, and on the way they often see other goods which they need. Goods on special sale are often placed well back from the entrance for the same reason. Staple necessities may also be placed well back in the store. Care, however, must be used in doing this. People want some convenience goods, such as cigarettes, periodicals, toothpaste, razor blades, and sodas, in a hurry

and do not like to walk to the back of the store for them. The drug store may compromise and place the fountain half way back.

Customers' convenience.—The store should be con-

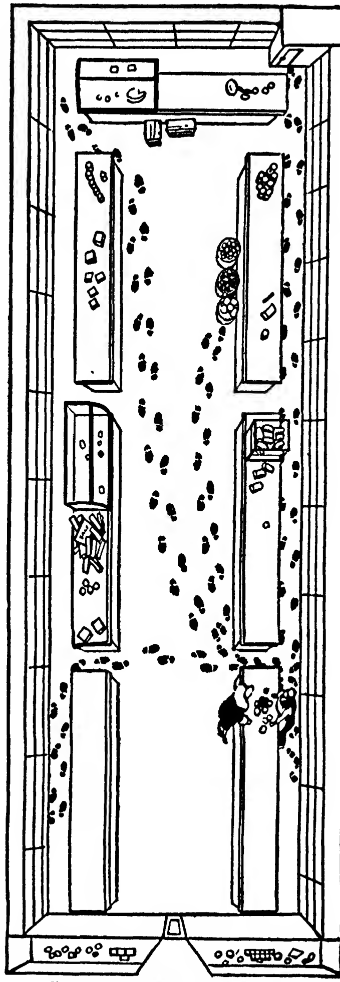
Courtesy National Retail Hardware Assn. and U. S. Chamber of Commerce.

Fig. 32.—Same hardware store shown in Fig. 31 after remodeling. Note the low wall shelves and the open display tables arranged in aisles in the center of the store. The counters have disappeared. The remodeled store looks better and increases sales by a better display of goods—by the placing of goods where they are easily accessible to the customers.

venient to the customers. They become accustomed to finding goods in certain places, and, other things being equal, the goods should be kept in these places. Related goods commonly bought or used together are often displayed together (ensemble displays). Thus, instead of having all shoes in one department, men's shoes may be placed next to men's clothing, women's shoes near

women's clothing, and children's shoes with children's clothing. Hosiery is often kept adjacent to shoes. Children's clothing is often close to women's clothing, as most children's clothing is bought by women. In line with this development, the food store is replacing the former grocery store, butcher shop, and green goods store.

Facilitating sales.—Goods should be so arranged that they are easily accessible to the salespeople and that proper space is available for showing them to the customers. The arrangement of store fixtures and the location of wrapping counters, scales, cash registers, and credit telephones or tubes affect the time it takes salespeople to make sales; and the dealer wants to secure a high volume of sales for each salesperson.



Courtesy The Progressive Grocer.

Fig. 33.—Chart showing wasted steps in a store with a poor arrangement of stock and fixtures. The wasted steps take time and increase selling expense.

Promoting sales of new goods.—New goods may be given display space on tables or counters or in preferred locations although immediate sales do not justify the

expense. This is done to build sales for the future or to find the sales possibilities of the goods. Slow-moving goods may also be displayed in preferred locations in the hope of increasing their sale. Goods which do not sell well in one location are often greatly benefited by a change of location. The dealers should carry on a certain amount of experimenting all the time.

Privacy.—Some goods, such as wearing apparel that needs to be fitted, are best placed near the rear of the store, on side aisles, or on upper floors. Many customers like a certain amount of privacy in the purchase of such goods.

Store services.—A store should be so arranged that it can properly serve its customers in such matters as delivery, repair and alteration of goods, storage of goods, and extension of credit. Proper facilities, such as locker and rest rooms, are needed for the store employees. Some stores operate restaurants and lunch rooms. Such stores need facilities for receiving and storing the necessary foods.[2]

Display.—Some stores hide their goods and bring them out only as requested by the customers. This method is used to some extent by exclusive shops in selling wearing apparel. A method that is much more generally successful is to put the goods out where the people can see and feel them. Good salesmanship uses as many of the

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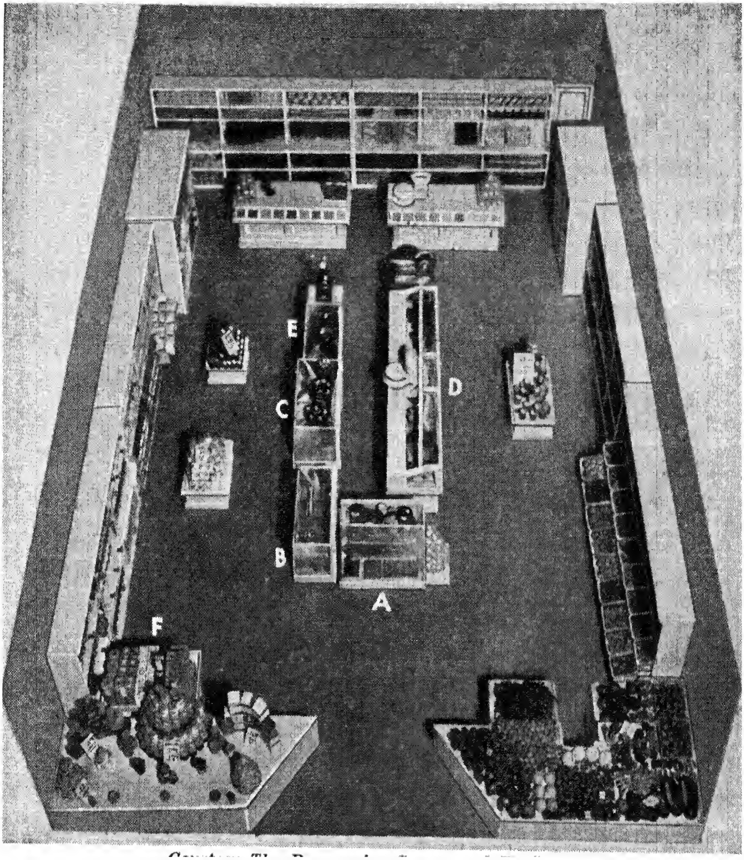
[2] In designing buildings, the architect must remember the necessary plumbing connections for restaurants, soda fountains, barber shops, and beauty parlors. In wiring a building, it is important to allow the necessary outlets for overhead, display case, and window lights; fans; and demonstrating lamps, washing machines, irons, lighting fixtures, radios, stoves, heaters, and cleaners. Facilities must be planned for heating, ventilating, and often cooling the store building. Many stores are now air-conditioned, so that they maintain a uniform temperature and humidity the year around and filter the dirt from the air.



Courtesy The Progressive Grocer and U. S. Chamber of Commerce.

Fig. 34.—Layout of a modern grocery store. Note that the shelves are low so that all goods can be easily reached; that the scales and cash register are in the rear to draw customers to the back of the store so that they have the opportunity to see other goods that they need; and that the island arrangement of fixtures allows free circulation of customers and places goods within easy view and reach. This plan can be used in a building as narrow as 22 feet. *A*—candy; *B*—tobacco; *C*—bakery goods; *D*—refrigerator for meats, butter, etc.; *E*—special displays of such goods as dried fruits; *F*—table display of packaged goods. See Fig. 14 in Chapter 9 for layout in narrower room. A wrapping table with scales and cash register in the front of the store would save much time in selling produce.

five senses—sight, touch, hearing, taste, and smell—as possible.

Approved present display methods involve placing all except the more delicate and valuable goods on open display tables or shelves where they are easily accessible to the customers. Long counters are not used. The

Courtesy A. J. Luther & Co. and U. S. Chamber of Commerce.

Fig. 35.—Modern display table. Note that goods are placed on top with price tags within easy reach of customers, while additional items and reserve stock are stored underneath.

wall shelves are open to the customers, or samples are displayed on panels attached to the doors of the cabinets. Small tables and fixtures which are movable are used so that they can be rearranged easily. The only counters used are those necessary for the scales, cutting devices, and the wrapping of packages. The salespeople sell on the floor with the customers rather than from behind counters. The best grade of goods, goods easily soiled or

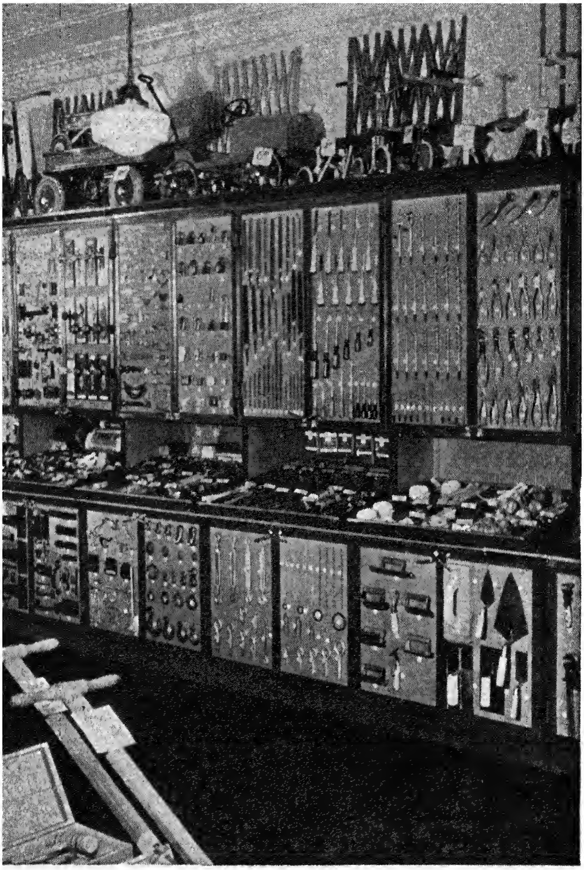
broken, and valuable goods, such as high-grade jewelry, may be kept in show cases or in drawers.

Fixtures.—Fixtures should be clean and attractive. They should not be so conspicuous that they attract attention to themselves. Their purpose is to display merchandise—not to be admired. For this reason they should be painted white or some dull color that does not attract attention and that makes a good background for the merchandise. Relatively cheap, wooden fixtures that are repainted frequently and kept spotlessly clean are satisfactory for most types of stores. Fashions in store fixtures change, and the newest fixtures of today may be obsolete in 10 or 20 years. Expensive fixtures therefore may involve heavy depreciation charges.

Tables.—Display tables are usually about 34 inches high and 30 inches wide. Goods are displayed on top, while drawers or shelves are placed below for reserve stock. It is desirable to have the drawers on ball bearings. The bottom drawer or shelf should be raised 6 inches to permit cleaning the floor. (See Figure 35 on page 408.)

Wall fixtures.—Wall fixtures seven feet high are recommended. This enables the salespeople and customers to reach all the merchandise without using ladders or stools. Since the eye seldom goes higher than seven feet, there is very little display value in the upper shelves of higher fixtures. Wall fixtures for many types of merchandise (shoes are an exception) need a display ledge the same height as the tables for showing goods to customers. Some stores still use higher wall fixtures, but those that have installed the lower shelves usually find that they are able to display all of the necessary goods. The upper shelves in the past have too often been used for carrying dead stock.

Display cabinets.—The recommended height for cabinets and other fixtures is five feet. This height allows

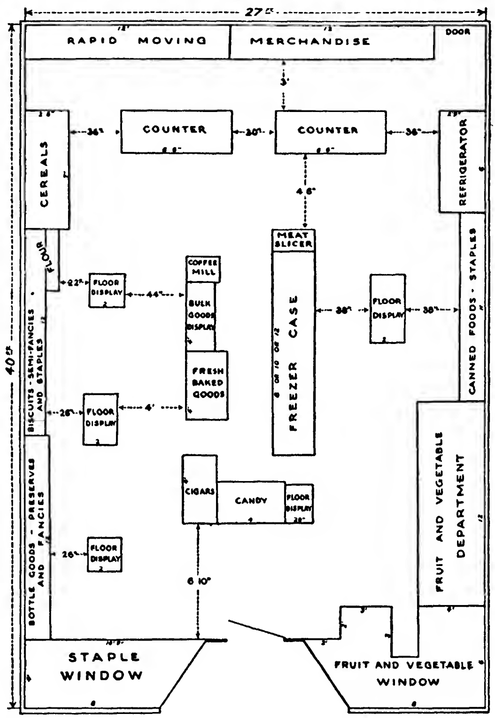


Courtesy Good Hardware.

Fig. 36.—Display panels in modern hardware store. Samples are displayed on the panels. Goods for sale are stored on shelves behind the panels.

the customer a free view of the store. Higher fixtures may be used in or around departments, such as clothing, where the customers want privacy.

Merchants who have changed from the old to modern fixtures have often felt that they could not find room for all of their goods on the tables and lower wall shelves. As a rule, however, they have been able to display all



Courtesy The Progressive Grocer and U. S. Chamber of Commerce.

Fig. 37.—Diagram of layout for modern grocery store. Note dimensions to help in location of fixtures.

of the necessary goods in the new fixtures. Many found that they had many goods in stock which should be discontinued, but some had to transfer a portion of their goods to their stockrooms.

Customer frontage.—One of the primary goals of store arrangement is to increase customer frontage, by which

is meant the number of lineal feet of fixtures upon which goods are displayed to the customer. Some merchants have doubled their customer frontage by adopting modern "model" layouts.

Window display.—The display windows are the most valuable space in the store. Some writers place the value of the windows as high as 25 per cent of the rent of the first floor. Window displays are designed to attract attention, to get people interested in the merchandise, to get people into the store, to build goodwill for the store, and to make sales. Windows may display merchandise which is for sale, may show demonstrations of how goods are made or used, or may present novelties or spectacles which attract attention regardless of their reference to the store's business. A display of war souvenirs by a grocery store would be a novelty display. It might attract a great deal of attention but would scarcely suggest the purchase of groceries.

Types of windows.—The size and type of windows vary with the goods to be displayed. The display of furniture needs a large window, perhaps 14 to 16 feet deep, while cigars, jewelry, and drugs may use a window 2 to 4 feet deep. The proper height above the sidewalk also depends upon the goods to be displayed. Large items like furniture should have low windows, say 16 inches above the sidewalk, while small items like jewelry require higher floors in the windows to bring the goods displayed up closer to the eyes of the passers-by.

Windows may be blind or open. Blind windows have backs which shut them off from the stores. Such windows are easier to light than open windows, are easier to arrange, are adapted to a greater variety of displays, and concentrate the attention of the passers on the window displays. With the use of artificial light in the store,

blind windows have come into common use, especially among wearing apparel and drug stores. Open windows allow the passers-by to see into the store and, in a sense, make the entire store a display window. Open windows also allow the store to secure more natural light, although some authorities feel that this is a doubtful advantage. Open windows are often used by grocery, furniture, automobile, and farm implement stores, and restaurants.

Building the display.—The first thing a display should do is attract attention. Attention may be secured by life, action, noise, color, light, size, demonstrations, or novelties. A window with live animals (e.g., chickens or rabbits) attracts much attention. Relatively few displays, however, can use life to attract attention. The merchant can nevertheless suggest life by scenes showing hunting, camping, fishing, or racing scenes, or showing the use of the products. Action may be secured by articles in motion, such as mechanical devices, machines in operation, and the flashing on and off of lights. A buzzer is occasionally used to attract attention by noise. Music or a loud speaker may be used for the same purpose.

Colors, especially bright colors, catch the eye and secure attention. Flowers, fruits, women's apparel, dry goods, wall paper, and meats can be relatively easily used to attract attention by their colors. The use of light to attract attention is discussed below.

The merchant who fills his window entirely full of some article (soap, for example) attracts attention by the unusual size of the display. This is known as *mass* display. Demonstrations, when well staged, and novelties, when well displayed, are excellent for attracting attention. A common fault of such displays is that they do not tie up with the goods which the store has for sale.

Window displays should be symmetrical and balanced. The interest should be centered in the goods. The background stands, and accessories, such as ribbons, flowers, and crepe paper, should make a background for the goods and should not themselves attract attention.

Windows should not be overcrowded. Some display men favor putting only a few articles in a window and

Courtesy Good Hardware.

Fig. 38.—Display window of a hardware store featuring sporting goods. Goods carried by hardware stores permit many appealing displays of hunting goods, fishing equipment, camping outfits, sporting goods, and so forth.

concentrating attention on these. They say that crowded windows divide the attention of the passer-by so that his desire is not aroused for any one thing. Stores selling the higher priced or "exclusive" goods most frequently devote an entire window to displaying one or two articles. Other display men say that windows should be reasonably well filled. They argue that the windows are too valuable to be only partly filled. They say that if a passer-by is not interested in one article, another may attract his attention. This seems to apply to stores selling small convenience goods, as drug sundries. If

one doesn't need toothpaste, he may need razor blades, hair tonic, soap, or shaving cream.

The merchandise displayed should be properly labelled and should bear legible price tags. The absence of prices leads the passers-by to think that the goods are so high priced that the dealer is afraid to display his prices. The only stores which should omit the price tags are those catering to a very exclusive trade.

Above all, the window should be clean; the merchandise and background should be clean; the displays should be changed frequently; and the window should be well lighted.

Store lighting.—Light attracts attention, allows customers to inspect goods quickly, gives the store a cheerful atmosphere, makes the goods appear clean and attractive, increases sales, and reduces the number of returned goods. One women's wear store across the street from a theater found that with its windows unlighted only 35 per cent of the people used its side of the street during the evening hours. It lighted its windows and found that 53 per cent of the people used its side of the street. With weak lights 2½ per cent of the people stopped to look at the displays. With strong light 34 per cent stopped. Another store improved the lighting of its store, and the percentage of returned goods dropped from 29 to 12 per cent. A drug and stationery store had one-half of its lights turned on one cloudy day. All of the lights were turned on, and sales increased 68 per cent.

Window lighting.—Windows should be brightly lighted. The amount of light needed will depend somewhat upon the amount used by adjacent stores and the color of merchandise and background in the windows. For a window to stand out from its neighbors, it must

have more light or must have colored light. Dark colors absorb more light than light colors. Therefore windows containing dark goods need more light than those containing light-colored goods. For most stores 200 watt light bulbs placed from 12 to 24 inches apart should be satisfactory. The lights should be kept clean and replaced before they are worn out. The lights should be so placed that they shine on the displays and so that there is no glare in the eyes of the people on the street.

Interior lighting.—Well-lighted interiors facilitate the sale of goods and enable the customers to examine goods to better advantage. Light stimulates action. Brightly lighted stores enable customers to buy more quickly.

The amount of light needed varies with the color of the walls, fixtures, and merchandise. Dark walls need more light than light walls. Overhead lights should not be further apart than one and one-half times their distance from the floor. Thus lights placed 10 feet from the floor should not be over 15 feet apart. Nystrom points out that the average intensity of light used on the main floor of department stores is about 1.27 watts per square foot, which means that if lights are placed 15 feet apart, each fixture must have 286 watts. Somewhat less light is ordinarily used on upper floors. The light bulbs and fixtures should be kept clean. Lights should be so arranged that there is no glare, and the lights should be evenly diffused so that no places are dimly lighted. Using more lights and placing them closer together enable the light to be better controlled.

There are three types of lighting fixtures: direct, indirect, and semi-direct. With a direct fixture, the light shines directly on the goods. This is the poorest type of lighting. With indirect fixtures, the light is thrown on the ceiling and reflected on the goods. This gives

the most perfect diffusion but requires much more current and therefore is more expensive than direct lighting. The semi-direct fixture allows some light to shine through the globe, while some is reflected downward from the ceiling. Considering both results obtained and cost, semi-indirect lighting is often the most practical.

Chapter 24

Review Questions

1. What are the objects of stock arrangement and display?

2. What are the factors determining the proper location of goods in a store?

3. What type of goods are placed near the front of the store? Why?

4. How is the rental cost of a store distributed to the different parts of the building?

5. How does appearance affect the location of goods in a store?

6. What devices do merchants use to draw customers to the rear of their stores?

7. How should goods be arranged to meet the convenience of the customers?

8. How may a store be arranged to save the time of the salespeople?

9. Why are new goods sometimes given preferred location in the store?

10. What consideration should be given to service facilities in providing the store building and arranging the goods and fixtures?

11. What rules should be followed in providing store fixtures?

12. What about the color of fixtures?

13. What use does the modern store make of display tables? What is the proper size of such tables?

14. What type of wall fixtures are recommended at present? Why?

15. Why are low cabinets favored?

16. What is the value of the store's windows?

17. What are the objects of window display?

18. What may be displayed in show windows?

19. What determines the proper size and height of a store window?

20. What are the advantages of blind and open windows?

21. How may a window display attract attention?

22. What rules should be followed in building window displays?

23. How much merchandise should be displayed in a window? Does this depend on the type of goods?

24. Why does a drug store sometimes put a great many goods in its windows?

25. Should goods in a display window be labelled with their prices? Why or why not?

26. What is the value of well-lighted windows to a store?

27. What are the rules for lighting store windows?

28. Why should store interiors be well lighted?

29. What are some rules for lighting store interiors?

30. What are the three types of lighting fixtures?

Thought Problems

1. What is meant by ensemble displays?

2. When should convenience goods be placed in the rear of the store and when should they be placed near the entrance?

3. A store advertises a special sale of hosiery. Under what conditions should the hosiery be placed near the entrance, and under what conditions should it be placed in the rear of the store or on an upper floor?

4. A store selling women's shoes has no shoes in sight except a few pairs in display cabinets and in the show windows. When a customer comes in, she is seated and her foot is measured. The salesman then goes behind a partition and brings out a pair of shoes. If this pair is satisfactory, no other shoes are shown the customer.

(a) Is this a good method of displaying and selling shoes? Why or why not?

(b) If you feel that this method has some merit, to what types of goods or to what types of customers is it applicable?

5. How is customer frontage increased by well-designed layout?

6. Cohen Bros. have a one-floor-and-basement store handling the following lines of goods: women's hosiery; women's gloves; women's underwear; furs; handkerchiefs; towels; women's coats; dresses; notions; handbags and novelties; men's furnishings; men's suits and overcoats; work clothing, including overalls, shirts, pants, socks, and shoes; house dresses; women's shoes; men's dress shoes; blankets and bedding; luggage; and kitchen supplies, such as cooking utensils, cutlery, and woodenware.

(a) Which lines should be placed in the basement and which on the street floor?

(b) The street floor is wide enough for a main aisle and two side aisles, all three aisles running lengthwise of the store. Draw a diagram showing the proper arrangement of the lines which you would place on the street floor.

7. Alfred Jones pays $12,000 a year rent for the first and second floors of a building on First Street, where he conducts a men's clothing store. The building is 100 feet deep and 50 feet wide. What is the rental value per square foot of the first floor? Of the second floor? What is the square foot rental value of the various parts of the first floor?

Chapter 25

Buying

Success in buying.—Successful buying depends upon knowledge of demand, quality, and prices. In carrying on his work, the buyer needs bargaining ability, for there is still much higgling over prices and terms. The buyer should be industrious in seeking out sources of supply, in shopping for the best goods and prices, in examining goods, in gathering information concerning the goods offered and the reliability of the sellers, and in interviewing salesmen. Much statistical information is needed, and a good filing system to keep information available at all times is necessary. The buyer should have a good personality to enable him to secure information and the coöperation of the salesmen.

Present demand.—Present demand is found from records of current sales and from want slips (records of articles asked for by customers which are not in stock). Stock control systems have been explained previously. With such a system, the buying of staple goods becomes almost automatic—the record shows when more goods are needed and the source of supply, and orders are placed in the regular routine of the business by the order clerks or assistant buyers.

Future demand.—Estimating future demand is more difficult and often more important than estimating present demand. The best basis of estimating the future demand for many articles is the trend of past sales. The records show whether the sales of an article are in-

creasing or decreasing. Few, if any, goods are in steady demand over a long number of years. The difference between staples and fashion goods is that the demand for staples changes more slowly than the demand for fashion goods. The demand for hardware changes so slowly that past sales records alone may furnish a good index of future demand. On the other hand, the demand for women's hats often changes so rapidly that trends in past sales are only one of several factors to be considered.

A few illustrations will direct the reader's attention to the importance of changes in demand. What has happened to the demand for rayon, seersucker suits, silk shirts, stiff collars, high shoes, short skirts, golf clubs, croquet sets, football equipment, lanterns, hammocks, iron pots and pans for the kitchen, talking machines, radios, harness, saddles, coal ranges, electric current, electrical refrigerators, tractors, lettuce, carrots, breakfast cereals, oranges, raisins, washing machines, and automobiles? The demand for each of these articles has changed radically during the past 25 years and for many of them during the past 10 years. There is, however, a great difference in the rate at which the demand for various articles changes. With some articles there is a gradual increase or decrease over a period of years. With other articles the demand changes very rapidly during a few weeks or a few months.

Although articles go out of fashion, the demand for them does not ordinarily stop entirely. A mail-order house still carries Congress gaiters. In some sections of the country the hardware stores do a good business in grain cradles. Percussion caps for muzzle-loading guns, croquet sets, and hammocks are still sold. The retailer and the local wholesaler must consider the demand in

his territory rather than the demand in the country at large.

Ordering and buying.—Ordering refers to the routine placing of orders for goods shown to be needed by the stock records. Buying includes the determination of what articles are to be bought; the seeking out of sources of supply; the negotiating of prices and other terms of purchases; and the making of contracts under which orders are placed. Buying includes the purchase of goods with variable demand, fashion goods, fads, equipment, and goods bought for special sales which cannot be ordered in a routine way from stock records.

Fashions.—A fashion is a style that is in vogue or that is enjoying wide popularity at a particular time. Merchandise which is greatly affected by changes in fashion is known as fashion (or style) merchandise. In buying fashion goods, the buyer must study the trends in fashion and forecast the future fashions. Fashion goods include not only wearing apparel but furniture and household furnishings, and, to some extent, foods, building materials, electrical goods, books, automobiles, and sporting goods. It is often said that no goods are entirely free from fashion changes.

In buying fashion goods, the buyer must study fashion trends and forecast future fashions. Fashion forecasting is difficult. Many goods go out of fashion and at some later time come back into public favor, but there does not seem to be a definite fashion cycle. An article may return to favor in 10 years, 25 years, 50 years, or perhaps never.

Manufacturers of clothing produce many new designs, a few of which come into fashion. Stylists are often employed by manufacturers and large stores to aid in forecasting changes in the demand for fashion goods and

in designing artistic and useful products. Stylists and buyers watch the trends in fashion centers, such as Paris, Fifth Avenue, Palm Beach, and Hollywood. Many articles, however, may be worn in such places and yet never come into fashion throughout the country. All fashions do not originate in such centers. They often come from the people and may originate in any part of the country. The midget radio came from California, the mackinaw came from the lumber camps in the north woods, and the galosh, or gaiter, is said to have come into fashion among the co-eds in middle western universities.

Another method of securing information as to fashion trends is to make counts and compute the percentages of consumers who are using different types of goods. If a count shows that 25 per cent of the women passing a certain corner are wearing black dresses at one time, while a month later 40 per cent are wearing black dresses, it is evident that the trend of the fashion is towards black. If in the following month 50 per cent of the dresses at this corner are black, the fashion is still on the increase. If the next month shows only 42 per cent of the women wearing black, the fashion appears to have passed its climax, and the dealer should stop buying black dresses and push the sale of those in stock. Future counts will show whether the trend away from black continues. Fashion counts show the goods in use, but articles continue in use after their sale has stopped. Frequent counts must therefore be made to find the trends.

In order to buy fashion goods intelligently, the merchant may study his sales records and want slips carefully, read fashion magazines, visit fashion centers, obtain reports from organizations which compile data

and make forecasts, observe local fashions, and make local fashion counts.

Weather.—The sale of many goods depends to a considerable extent upon the weather. A cold winter increases the sale of overcoats, gloves, ice skates, coal, and, if there is snow, sleds and snow shovels. A hot summer increases the sales of electric fans, garden hose, light weight suits, cold drinks, ice, refrigerators, and ice cream. A rainy summer increases the sale of lawn mowers and haying machinery, as there is more grass to be cut. The sale of lawn mowers is said to vary as much as 50 per cent from one year to another.

The weather during the early part of the season affects the sale of many articles. If the early part of the winter is cold, the sale of overcoats, gloves, and many other cold weather goods will be increased. On the other hand, if the cold weather comes in February, people are thinking of spring and are inclined to make their old coats and gloves finish the winter. Similarly an excessively hot June will increase the sale of fans, refrigerators, and palm beach suits more than a hot August. Recently the temperature in the central west went below zero just after Thanksgiving. A middle western glove manufacturer reported that as a result his sales were so good he had to work overtime during the next six weeks to keep up with his orders.

Weather cycles.—The weather influences many businesses. It would be very helpful if the weather could be forecast for 6 months or a year in advance. Attempts at long-range weather forecasting are common, but up to the present time no entirely accurate method has been devised. It has been observed that the weather ordinarily comes in "bunches." Three or four cold winters are likely to be followed by two or three mild

winters. Three wet and cold summers are often followed by two dry and hot summers.[1] Long-range weather forecasting by the use of cycles is not entirely accurate, but it may be better than entirely ignoring future weather in making purchases.

Business conditions.—Sales are affected by economic or business conditions. When conditions are good, both business concerns and consumers buy freely. When business is poor, buyers curtail their purchases. Many workers lose their jobs and many have their earnings reduced. Others save money in fear that they will lose their positions.

The buyer must therefore consider the future prosperity of his territory in making purchases. Many volumes have been written on the subject of business forecasting, and it is too big a subject to discuss here. We shall only point out that what is generally called *the business cycle* is an average made up of conditions in all sections of the country and in all trades. One section of the country may have good business, while another section has poor business. One trade may have increasing sales, while another trade may have declining sales.

The buyer must base his purchases on the expected sales in his trade in his territory. The general business cycle is thus only one of several factors which he must consider. The merchant in a steel town must consider the condition of the steel industry, as this influences the purchasing power of his customers. The merchant in a trading center in the Corn Belt is interested in the rainfall in his community during July and August, because

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[1] United States Chamber of Commerce study. This statement refers to the eastern portion of the Mississippi Valley. Farther west, the proportion of dry years may be larger.

the rainfall and the acreage planted largely determine the size of the local corn crop. The size of the local crop and the price affect the purchasing power of his customers. The price of corn depends upon the supply, and the supply, in turn, depends largely on the carry-over from the previous year and the July and August rainfall throughout the Corn Belt.

The budget.—A budget is a carefully worked out plan of the future sales, purchases, income, and expenses of an organization. The sales budget is the estimated sales for a future period. In a retail store the budget often covers a six-months period divided according to months. Future sales are estimated on the basis of past sales, trends in sales, expected changes in demand, expenditures for advertising and sales promotion, and general business conditions and prosperity in the trade area. Sales are estimated by departments, lines, and classifications of goods. For example, total sales of men's shirts may be estimated by months for a six-months period, and these estimates may then be broken down by sizes, prices, fabrics, styles, and colors. If designs, fabrics, and colors are considered in the budget estimate, the figures must be subject to change on short notice as changes occur in demand.

When the sales budget is made, the buyer can set up his purchase budget, which serves as a guide to the quantities of the various articles to be bought. The budget should be flexible so that it can be changed quickly if changes in demand occur. The buyer should not, ordinarily, buy the entire amount called for by the budget at the beginning of the period. He should reserve a part of his allowances for the various lines of goods, in order that he can buy new articles which come suddenly into

demand, or can increase his purchases of articles which sell faster than anticipated.[2]

Quality.—A buyer should be a good judge of quality. Some goods have been so well standardized that they can be bought by grade or examined by trained inspectors to see that they come up to the specifications. Some buyers determine the quality of goods needed and lay down specifications upon which the sellers submit prices. Many goods, however, are not standardized, and the buyer must judge their quality in order to purchase intelligently. Some buyers have spent years working in factories or wholesale houses handling the goods, in order to become good judges of quality. They develop highly trained senses of sight and touch. In recent years the laboratory has come to be widely used in determining the quality of various products. Chemists and other technically trained men find the chemical content, the strength, the resistance to wear and tear, and the durability of various products.

Buyers often secure records of performance on the goods offered for sale. If they have used the goods, they have their own records; if not, they may obtain reports from other users. Purchasing agents often exchange such information. With a motor truck, for example, the buyer wants to know the cost of operation per mile or per ton of goods carried.

With goods bought for resale, the buyer wants to know how the goods sell and how much profit is realized

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[2] In a department store the budget is originated by the buyers, who work with the division merchandise managers. Their figures then go to the controller and merchandise manager for revision. In a manufacturing concern the sales budget may be drawn up by the sales and research departments and revised and approved by the chief executives. The purchasing department can base its budget on the sales budget.

on their sale. Occasionally, stores keep records of goods according to producers so that they know the net profit realized on the goods bought from various sellers.

Prevailing prices.—It is sometimes difficult to know the actual prices at which goods can be bought. In many trades prices are quoted in trade or business papers. Very often, however, goods can be bought for less than the quoted prices, and many sellers give different prices to different buyers. Brokers often give their principals (employers) information concerning prevailing prices. Buyers sometimes exchange prices quoted by various sellers. The buyer often obtains prices from several salesmen before placing an important order. In spite of such precautions, many purchases are made without the buyers knowing whether or not they have obtained the lowest prices available in the market. This is an advantage of belonging to a buying group (explained in Chapter 12).

Future prices.—If prices are expected to advance, buyers may buy enough goods to cover their needs for several months. On the other hand, if prices are expected to fall, purchases may be made on a hand-to-mouth basis. Contracts are often made to cover the purchase of goods months in advance of their delivery. In order to make such contracts wisely, the buyers must forecast the movement of prices in the future. If prices are expected to fall, the buyer often prefers to buy the goods as needed unless the seller guarantees to give him the benefit of any reduction in prices occurring prior to delivery. Buyers study price trends and attempt to make purchases at times when prices are low.

Prices depend upon the supply of and demand for the goods and the quantity of money and credit available.

The supply of a product may depend upon the weather; the acreage of crops planted; the stocks in the hands of producers, dealers, and consumers; the cost of production; and market prices. If the price is high, producers increase their output, while if the price is low, they curtail their operations. Demand depends upon population, the income of the consumers, fashions, the weather, business prosperity, living conditions, the price of the product under consideration, the prices of competitive or substitute products, advertising, sales promotion, and the like. Some manufacturing and merchandising companies have their own research departments to forecast the movement of prices. There are also several concerns that issue studies and forecasts of price movements for those who subscribe to their services.

The work of the purchasing agent.—The men who do the buying are usually called *buyers* in retail and wholesale stores, and *purchasing agents* in factories, mines, public utilities, and institutions. The work of a purchasing agent differs in many respects from that of a buyer. In the first place, the purchasing agent usually has to buy a great variety of goods. He has to buy everything from pencils and stationery to lubricating oils, fuel, gasoline, motor trucks, machinery, and raw materials. Many purchasing departments buy thousands of articles. It is impossible for one man to study so many products and become an expert judge of their qualities and prices. Some of the large companies have several men in their purchasing departments, some of whom specialize on certain products and become experts.

The purchasing agent buys many things that are requisitioned by men in the organization. When he receives

a requisition for an article, he must find a source of supply and buy at the best price available from a seller that offers the desired quality and service. In some instances the producer is specified on the requisition, so that all the purchasing agent does is to place the order.

In some companies the purchasing agent's job is largely to buy the goods requisitioned by various department heads. In such a plant the purchasing agent's duties are to seek out sources, negotiate terms, and place orders. He is, in reality, a high-grade clerk rather than an executive.

In other plants the purchasing agent is a real executive and selects many of the goods, determines the sources from which they can be bought to best advantage, determines the quantities to be purchased, and actually makes the contracts or places the orders. In such plants the purchasing agent may study business conditions and forecast prices. On important purchases he secures reports of the performance of goods offered by various sellers and has the goods analyzed in his laboratory or inspected by experts. He studies prices and price trends. He may forecast the company's sales. He determines the quantity of goods to be bought at a given time in accordance with his estimate of future prices and future sales. He is a real executive.

Reciprocity.—Reciprocity in buying means mutual trade interchange—in other words, buying from certain sellers because they buy from us. Reciprocity is more important in business than is commonly appreciated by outsiders. It has been referred to as "the purchasing agent's nightmare," for the purchasing agent has to buy from concerns specified by the higher executives or by the sales department, regardless of whether these concerns have the best products or the lowest prices.

Chapter 25

Review Questions

1. What factors are necessary for success in buying?
2. How can the buyer know present demand?
3. How can the buyer estimate future demand?
4. What is the difference between ordering and buying?
5. What is fashion?
6. What is meant by fashion forecasting? How is it done?
7. What is a fashion count? How made? What is its use?
8. What are the duties of a stylist?
9. How does the weather affect demand?
10. Should buyers study the weather and weather cycles?
11. What is meant by the business cycle?
12. How do business conditions affect buying?
13. What is a budget?
14. How should the purchase budget be made for a retail store?
15. What is meant by saying that the budget should be flexible?
16. How do buyers judge the quality of goods offered for sale?
17. How may buyers secure information as to the actual prevailing prices?
18. Why does a buyer need to know future prices?
19. What factors determine prices?
20. How can the buyer secure information as to future prices?
21. How does the work of the "purchasing agent" differ from the work of "the buyer"?
22. What is meant by reciprocity? Why has it been called "the purchasing agent's nightmare"?

Thought Problems

1. How many items can you name that have been in steady demand for 50 years? For 25 years? For 10 years? Name products for which the demand has changed radically during the past five years.

2. Why does the demand for various articles change?

3. Why do fashions change? Who is responsible for the changes?

4. Are changes in fashion desirable? It is said, on the one hand, that changes in fashion cause loss to the consumers because the consumers discard goods before they are worn out, and loss to the dealers through mark-downs on out-of-fashion goods. On the other hand, it is said that fashion changes are good for the manufacturers and dealers because they stimulate sales, and for the consumer because he tires of old products and derives pleasure (utility) from new things.

5. What weight should be given to reciprocity in making purchases?

6. How can one forecast future prices?

7. Purchasing agents often resent being told by shop foremen, department heads, and high executives what brands or makes of products to buy. They claim that these people are too easily influenced by shrewd salesmen, friendships, or personal whims. Purchasing agents argue that they are trained to buy, to evaluate the arguments of salesmen, to calmly judge the qualities of products offered by various sellers, to secure reports from users of the products, and to have laboratory tests made. As a result, they claim to be better judges of the merits of the products offered by competing sellers than are the men in the shops or the offices.

Evaluate this argument.

Chapter 26

Profits

Meaning.—Profit, or net income, as used in this chapter, is the difference between margin (including "other income") and the expenses incurred in the operation of the business. Differences in the meaning of "profit" arise because of differences in the expenditures that are included in expenses. The bookkeeper often includes in expenses only those things that are actually paid for in the operation of the business. The economist, on the other hand, says that expenses, or costs, should include all amounts that must be paid to business men to induce them to perform services. The economist includes all items included by the bookkeeper and, in addition, payment for the owner's labor, capital, and risk. The economist argues that depreciation of buildings and equipment, the salaries of the owners active in the business, and interest on the owners' capital invested in the business should be included in the expenses. It is evident that the profit will be much less when these items are included in expenses than when they are not included. We have to know what are included in expenses before we know the meaning of the "profit" shown on a concern's income statement.

Economics teaches that under free competition prices tend to equal costs and profits disappear. Only the more efficient or the luckier (for example, persons owning goods which increase in value) make profits. Several studies of the operating statements of retail dealers show

practically no profits for the typical store after the inclusion of owner's salary, depreciation, and interest on the owner's capital as expenses. The reports of 168 medium sized department stores in 1929 show average profits of only 0.1 per cent of sales. This illustrates the working of economic theory. It means that the owners (of the department stores) made little more than interest on their investment and salaries for their services after the payment of all other expenses.

One trouble with putting owner's salaries in expenses is the difficulty of estimating their fair value. The salaries are fixed by the owners, who are not impartial judges of the value of their own services. Salaries may be placed too high; this reduces the profit shown on the operating statements. In fact, some owners appear to prefer to take the earnings of the business out in salaries and then say that they are making very small "profits."

Proper basis of profit.—This raises the question of whether profits should be computed as a percentage of invested capital or as an income for each owner engaged in the business. In large corporations with many stockholders, the most satisfactory method is to state the earnings as a percentage on the capital invested by the owners. In small businesses, however, it might be preferable to state the earnings as so much for each owner actively engaged in the operation of the business. Thus the merchant would say that he earned $3,000 rather than say that he earned 15 per cent on his investment. The commonly used method, however, is to state the profit as a percentage of investment or of sales.

Variation in profits.—We have pointed out in the previous chapters that both margins and expenses vary between different dealers. As profit is the difference between margin and expense, profits also vary. Expenses

vary more than margins because of differences in the efficiency of competing merchants and because of differences in luck—circumstances beyond the control of individual merchants.[1]

Out of a group of retail dealers in a given year, 3 per cent lost money; 22 per cent earned less than 6 per cent on their investment; 33 per cent (one-third of the total) earned from 6 to 11 per cent on their investment; 20 per cent earned from 12 to 17 per cent; 13 per cent earned from 18 to 23 per cent; and 9 per cent earned more than 23 per cent. Large profits are the cause of business success and make some rich. Small profits, on the other hand, cause dissatisfaction, while a lack of profit leads to failure.

Object of business not profit.—It is often said that the object of business is profit. We dislike this statement. Business provides the machinery through which most of our economic organization functions. The object of business is to perform services (or functions) for the consumers. The incentive which induces business men to undertake the performance of these services is profit. Profit is a reward for the efficient performance of these services. Unless a business man is efficient (or lucky), he does not receive a profit.

Average profits.—The average profits realized by groups of retail and wholesale stores, as shown by their operating statements, are usually from 1 to 6 per cent of sales and from 5 to 15 per cent of investment.

The average earnings per man for each owner active in the business, in a large group of rural dealers han-

[1] To illustrate this variable factor of luck, a merchant secures a long-term lease on a store building and the town starts to boom, greatly increasing his sales and decreasing his percentage of cost for rent; or, a merchant's customers are visited by a drouth, which greatly increases his bad debt loss.

dling farm equipment in a good year, was found a few years ago by a government study to be slightly over $2,000 per year, after allowing 7 per cent on the invested capital. A similar figure for the owners of retail hardware stores, as found in a nation-wide survey made by The National Retail Hardware Association, was $1,679.

Business success and failure.—Success in business should perhaps be measured by how well a business man performs services for the consumers, but in practice it is measured by the financial rewards received. We may say that a man is successful in business if he earns something more than a fair salary for himself and the ordinary rate of interest on his capital. We may think of failure as a lack of success as just defined. It may, however, be better to divide business men into three groups:

1. *Successes.* Those who earn fair salaries, interest on their capital, and something more as a profit.

2. *Middle group.* Those who earn more than expenses but who have no profit over fair salaries and interest on their capital. Such men earn modest to fair salaries for themselves and low to average rates of interest on their capital. A very large proportion of business men come within this group.

3. *Failures.* Those who lose money, or who earn less than fair salaries and no interest on their capital.[2] A man may fail, as here defined, without becoming insolvent, as he may sell his business before all his capital is exhausted. He may remain in business for years by taking out very little for his personal services.

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[2] Or who earn not more than the average rate of interest on their capital and nothing for their personal services.

It must not be assumed that a man stays permanently in one of the three groups. Many business men change from one group to another in different years.

The mercantile agency defines business failure as the quitting of business with a loss to creditors—in other words, as insolvency. This means that the concern going out of business has lost all its own capital and some of the funds advanced by its creditors. Approximately one per cent of the business concerns of the country fail in this way during a year. However, more than one-sixth go out of business each year.

Business mortality or turnover.—Several studies have been made of business mortality, or the number of concerns quitting business. A few of the facts from such studies are summarized in the following paragraphs.

Illinois study.—A study of the dealers in 11 retail trades in 255 Illinois towns from 1925 to 1930 was made by the author. The facts are shown in Table 39.

TABLE 39.—PERCENTAGE OF DEALERS GOING OUT OF BUSINESS IN ONE AND FIVE YEARS IN 255 ILLINOIS TOWNS

Type of Stores	*Per Cent Quitting in One Year*	*Per Cent Quitting in Five Years*
Hardware stores	5.2	27.8
Drug stores	7.0	24.3
Dry goods stores	7.9	35.5
Furniture stores	8.7	36.2
Clothing stores	8.8	36.2
Department stores	9.7	38.7
Meat stores	14.1	46.3
General stores	14.4	40.5
Garages	17.2	51.0
Grocery stores	17.5	49.5
Restaurants	28.5	64.7
Averages for 11 trades	15.9	46.3

A study of all kinds of retail business establishments in two typical towns indicates that the averages of these

11 trades can be taken as representative of all retail businesses.

These figures are based on the number of dealers who were in business in 1925 and who quit during the following five years. Those in business in 1925 include newly established dealers, as well as those who have been in business for a number of years. More dealers fail during their first year in business than during any later year. Many inefficient dealers enter business. They lack training, knowledge, capital, or industry, and are soon forced out of business. The most grossly inefficient are pushed out during the first two years. Those who stay in business for two years have better chances of having long business careers than new dealers just entering business. The following figures show the percentages of all types of newly established retail business concerns, in two typical towns, which were out of business by the end of the first, second, and third years after starting:

First Year...	31.4 per cent quit
Second Year	47.4 " " "
Third Year	58.7 " " "

Other studies.—Nystrom made a study of the business life and mortality of retailers in 7 trades in various Wisconsin towns for periods between 1890 and 1912. His results were similar to those found in Illinois. The facts for Oshkosh are typical of his findings. There were 145 dealers in these seven trades in Oshkosh, in 1890. Only 18 of the original 145 were left in business in 1912. From 1890 to 1900, 201 dealers entered business. Only 39 of these were still in business in 1912.

System magazine conducted in three middle western cities studies covering the period from 1886 to 1916. In Grand Rapids, Michigan, it was found that more than

one-half of the dealers quit business within ten years, and more than two-thirds quit within 15 years. In Waterloo, Iowa, it was found that 45 per cent of the retailers went out of business within five years. In another city, it was found that 40 per cent of a group of retailers quit within five years. These studies included manufacturers and wholesalers. It was found that the rate of mortality was as high among manufacturers, and almost as high among wholesalers, as among retailers. Studies in Louisville and Fort Wayne show that the rate of mortality among retail grocers has changed little during the past forty years.

The approximate percentages of retail stores going out of business annually in other cities have been found in various studies to be as follows:

Type of Store	*Percentage Quitting Per Year*
Drug:	
Chicago, Ill.	16
Buffalo, N. Y.	13
Grocers:	
Buffalo, N. Y.	36
Louisville, Ky.	25
Fort Wayne, Ind.	22
Hardware:	
Buffalo, N. Y.	16
Shoe:	
Buffalo, N. Y.	22

A study of the figures presented in the foregoing paragraphs indicates that the rate of mortality is somewhat higher in large cities than in the smaller cities and towns.

Why merchants quit business.—Why do so many merchants go out of business each year? Some sell out with a profit or retire. Some quit because of old age,

sickness, and death. Some quit because of insolvency—failure in the legal sense. But by far the most quit because they are dissatisfied with their earnings. They are losing money or making so little that they decide to sell out and try other businesses or get jobs working for others. Nystrom found in his study that merchants who went out of business did so under the following conditions:

	Per Cent
Sold out or retired with a profit	9.5
Sold out at a loss	13.5
Failures or fizzles	61.5
Bankruptcies	3.0
Sickness and death	12.5

It will be noted that by far the largest percentage failed or fizzled—that is, they quit business without making any profit for themselves. Most of them seem to have lost part or all of their capital. Thirteen and a half per cent were definitely known to have lost money, but only 3 per cent went through bankruptcy. Only 9.5 per cent were definitely known to have quit with a profit.

A very large portion of those going out of business later re-enter the same or another business. It is not unusual for a man to spend his life in business and to operate several different stores in the same or different trades. Some stores he may sell at a profit, but more often he sells at a loss or simply retains his original capital. He may work for another until he accumulates a small amount of capital or may borrow enough to start another small business. Very often the wholesalers extend sufficient credit to an experienced man to enable him to enter business with little or no capital of his own. Many men, however, have only one business en-

terprise of their own and, if it fails, are thereafter content to work for others.

Why merchants fail.—Many studies have been made to determine the cause of business failure. These studies show that failures are caused by incompetence, lack of capital, inability to meet competition, inexperience, unwise extension of credit, poor collection of accounts, poor buying, slow stock turnover, poor location of stores, poor accounting methods, poor salesmanship, fraud, speculation, fires, floods, storms, robberies, sickness, and death.

These causes may be grouped under three heads: inefficiency; lack of capital; and external factors, such as fires, floods, storms, robberies, sickness, and death, which are beyond the control of the merchant. Broadly interpreted, inefficiency includes poor buying, slow stock turnover, choice of a poor location, lack of training, poor collections, poor salesmanship, poor accounting, and many other causes often listed separately.

Inefficiency and lack of capital apparently cause about four-fifths of the business failures, while factors beyond the control of the individual business man cause about one-fifth of the failures.

TABLE 40.—CAUSES OF FAILURE OF 100 MEN'S FURNISHINGS STORES

Cause of Failure	*Percentage of Concerns*
Lack of capital and over-expansion	33
Incompetence	17
Poor location	13
Declining community	13
Speculation	7
Inability to meet competition	5
Fraud	4
Too much stock (slow turnover)	4
Lax extension of credit and poor collections	3
Dissension between partners	1

There is popular idea that it is easy to make money in business. This leads many incompetent and inexperienced people to enter business without sufficient capital.

TABLE 41.—FACTS ABOUT FAILURES OF DRUG STORES
(St. Louis)

Cause of Failure	*Percentages*
Insufficient capital	40% of concerns
No capital of own when business started	37 " " "
No previous experience in drug business	17 " " "
Gross incompetence	33 " " "
Inadequate records	37 " " "
No profit and loss statement ever prepared	93 " " "
Sickness (including old age)	10 " " "
Street construction obstructed entrance to store	7 " " "
Depression caused decline in income of customers	3 " " "
Average rent paid by failing stores (4.7% for active stores)	10.5% of sales
Average bad debt loss on credit sales (1.4% for active stores)	16.5 " " "

TABLE 42.—FACTS ABOUT FAILURES OF 570 BANKRUPT CONCERNS
(Boston)

Cause of Failure	*Percentages*
Less than high school education	over 67.0% of bankrupts
No previous experience in type of business	over 50.0 " " "
No accounting records	over 50.0 " " "
Inadequate accounting records	28.0 " " "
Not using credit bureaus	99.1 " " "
Bad debt losses on credit sales (average for active concerns 0.6%)	5.6% of sales

TABLE 43.—CAUSES OF BANKRUPTCY AMONG 266 CONSUMERS

Cause of Bankruptcy	*Percentage of Bankrupts*
Extravagance	28
Evasion of judgment on foreclosed debts	15
Avoidance of liability on foreclosed real estate	14
Decreased income	13
Domestic misfortunes	13
Speculation in stocks and/or real estate	7
Business involvements	5
Dishonesty	5

In one survey it was found that over half of the men entering the retail grocery business did so because they were out of work and had nothing else to do. Such people are generally unsuccessful and lose their time and all or part of their money. It is the withdrawal of these untrained, inexperienced, and incompetent people that causes the high rate of business mortality. This high rate of mortality is bad. It involves a loss of time and money to those who fail, and it involves bad debt losses to manufacturers and wholesalers which must be passed on to the consumers in the form of higher prices.

The ease with which business can be entered often leads to an oversupply of dealers in many communities, causing poor services to the consumers through incomplete or stale stocks and perhaps through high prices, since too many people are trying to make a living from a given volume of trade.

Remedies.—It is too easy to enter business. Four-fifths of the failures are caused by inefficiency and lack of capital. The situation might be greatly improved by more education for business and by keeping out of business those who are obviously unfit and those who lack a minimum of capital for the business which they propose to undertake. If this could be done, it would benefit the rejected applicants as well as the consumers in general. A movement is under way at this writing to increase greatly the amount of instruction offered in the high schools to prepare people for the distributive trades.

Several proposals have been made for limiting the number of people entering business. One method that is gaining widespread popularity is city zoning. Zoning limits the districts in which new businesses can be started and so is said to reduce the number of small neighborhood stores. Another method is to refuse licenses to new

dealers in communities that are already fully supplied with similar stores. Such plans usually limit the number of stores in proportion to population. A city may take an inventory of its retail businesses and find the number of each type in each locality. Prospective merchants may then be advised by city officials or bankers which localities to enter and which not to enter.

The wholesalers could do much to remedy the situation by refusing credit to people who have insufficient capital and who obviously lack experience or the training that fits them for success.

Examinations.—Another proposal is that people be required to pass examinations before they are given licenses to enter business. Many states have examinations for men who want to be lawyers, doctors, accountants, barbers, plumbers, electricians, druggists, or underwriters. Applicants could secure the information necessary for the examinations in schools and by experience. As licenses would be granted to all who passed the examinations, the proposal is not opposed to freedom of opportunity, as at present understood. The examinations might cover the principles of merchandising (including salesmanship, advertising, and bookkeeping) and a knowledge of the goods to be handled.

There is, of course, something to be said for allowing people without special training or who are not physically able to do strenuous work to start small retail establishments, such as news stands, lunch counters, or small neighborhood stores, in order to keep them from being unemployed or becoming public charges. This is especially true in times of business depression. However, considering all angles of the problem, it seems that only a limited number of persons should start such businesses of their own.

Chapter 26

Review Questions

1. What is profit?

2. What is the difference between the bookkeeper's and the economist's definition of profit?

3. According to the economist's definition, are there any profits under free competition?

4. What objection is raised to putting salaries for the owners of the business into expenses?

5. What are the two bases of computing profits?

6. Why do profits vary widely between competing merchants?

7. What is the object of business?

8. How is business success measured?

9. Give two definitions of business failure.

10. What is meant by business mortality or turnover?

11. What are the facts about business mortality as found in various studies?

12. Has the rate of business mortality changed during the past 40 years?

13. Is business mortality higher in large or small cities?

14. Why do merchants quit business?

15. What are the principal causes of business failure?

16. Why do so many incompetent people enter business?

17. Does the high rate of business mortality, or dealer turnover, benefit the consumers? Reasons?

18. Name proposed remedies for the high rate of business mortality.

19. Which of these remedies do you favor? Why?

Thought Problems

1. Do all the merchants quitting business fail?

2. It has been said that a business man does not earn a

profit until he has allowed for depreciation on his assets, paid himself a salary, and earned six per cent on his invested capital. Comment.

3. What do you think of the proposed examinations for new dealers? It has been said that such examinations are opposed to the idea of a free opportunity for all. What do you think of this statement?

4. What should the proposed examinations for dealers include (assuming that they are to be required)? Make out a set of questions for prospective retail grocers or some other type of retailers.

5. Why is the rate of mortality among new dealers highest during their first years in business?

CHAPTER 27

Principles of Salesmanship

Salesmanship defined.—Salesmanship may be defined as the art of persuading people to purchase goods or services. The buyers do not, in most instances, want the goods themselves but rather the satisfaction which the goods or services give. The salesman, thus, sells the hope and expectation of pleasure or profit. The customers are interested in what use they can make of the goods, or what the goods will do for them. To illustrate, the ordinary person is primarily interested in the pleasure and use he gets from an automobile. He cares more about its appearance, speed, riding ease, dependability, and safety than in the kind of steel, gears, axles, sparkplugs, springs, and bearings that are in it.

Salesmanship is often thought of in a somewhat broader way. Thus "salesmanship is the art of winning willing coöperation." This definition broadens the meaning to include winning coöperation for every purpose. The clergyman, the teacher, the lawyer, the foreman, the executive, and everyone else in a position of leadership should master the art of "salesmanship" in this broad sense. In this chapter, however, the term will be limited to inducing people to buy goods or services.

Salesmanship is often used to include both personal and impersonal methods of selling. When defined thus it is divided into personal salesmanship, advertising, and publicity. As used in this and the three following chap-

ters, "salesmanship" refers to personal salesmanship.

Steps in a sale.—There are four steps in making a sale. The first is securing *attention*. If the salesman cannot get the prospect's attention, he has no chance of arousing his desire. The second is securing *interest*. The prospect must become interested in a product in order to learn enough about it to want it. The third step is arousing *desire*. People must want things before they will buy them. The fourth step is securing *action*. No matter how badly a person wants a thing, the sale is not made until he buys it. He may have the desire and yet not purchase because he wants something else more or because he lacks money. Not only must the salesman make people want things but he must make them want his product more than they want other things.

Salesmanship vs. order-taking.—Salesmanship is making people want a product and then selling it to them. Order-taking is simply handing out the goods or writing orders for goods which people already want. The clerk who fills the order, or the traveling man who asks the dealer what is on his want list and writes down these items on his order blank, is an order-taker. However, if he presents goods which the customer had not intended buying in such a way that the customer's desire is aroused and he buys them, then he is a salesman. The number of people who can take orders is very large. Consequently their pay is low. On the other hand, the number of people who can arouse desire and secure action is relatively small, and consequently their pay is very much higher than that of the order-takers. In practice, the term "salesmanship" is often used to include both real salesmanship and order-taking. The reader, however, should remember the distinction.

Necessity for salesmanship.—Salesmanship is necessary under the present economic system because the productive capacity of our factories, mines, and farms is larger than the purchasing power of the consumers. This condition was brought about by the industrial revolution and has been particularly noticeable during the past fifty years. It makes what we call a "buyer's market," by which is meant that there are many sellers trying to sell every buyer. The buyers are therefore more or less autocrats who bestow their patronage upon the seller who best meets their needs.

Salesmen have introduced many new products which add to the consumer's comfort and to business efficiency. Cooking stoves, electric refrigerators, kitchen cabinets, washing machines, electric irons, aluminum cooking utensils, vacuum cleaners, cash registers, typewriters, adding machines, and air-conditioning equipment are examples. The demand for nearly all new products must be developed.

Types of salesmen.—Salesmen may be classified as wholesale, retail, and specialty. Wholesale salesmen represent manufacturers or wholesalers and sell to other business men—manufacturers, wholesalers, retailers, institutions, public utilities—and not to the ultimate consumers. Most of them are traveling salesmen and call upon their customers at their places of business.

Retail salesmen sell at retail and usually work in retail stores where the customers visit them.

The specialty salesman has only one line to sell, and he sells only one article or a very few products. He *specializes* on this, devotes his entire time to it, and so should have an expert knowledge of it. He often sells a new or distinctive product, or a product which en-

counters much sales resistance. This means that his task is difficult and that it requires real ability and effort to succeed. Many of the best salesmen are specialty men. They are found selling such products as insurance, books, bonds, machinery, and new devices of all kinds. Some call upon only business concerns and others call upon only the consumers, but many call upon all classes of prospects. They may represent any type of seller, but relatively few are employed by wholesale and retail merchants.

The principles of salesmanship laid down in this chapter apply to all types of salesmen, but we shall have in mind particularly specialty and wholesale men. Retail salesmanship will be discussed more fully in Chapter 29.

Buying motives.—The salesman deals with people. Since his purpose is to influence people, he should understand human nature. A knowledge of buying motives (the reasons why people make purchases) is fundamental to successful salesmanship.

Many lists of buying motives have been prepared. Some classifications include only the fundamental motives, or bases, of human action, such as desire for food and bodily comfort, affection, pride, fear, imitation, awe of the Divine, desire for money, and desire to acquire things. Others include long lists of the specific reasons causing people to make purchases. For our purposes we shall list the above fundamental motives with a few of their more important subdivisions.

Buying Motives

Desire for food.

Desire for bodily comfort, health, protection from the weather as given by houses and clothing, leisure, and cleanliness.

Affection—love of the opposite sex, of family, of friends; and the desire to make them happy.
Pride, desire for the praise and admiration of others, desire to excel, desire for ornaments, education, etc.
Profit or desire for gain or economy. Most purchases made by business men are made in the hope of a profit.
Fear, caution, desire for safety.
Imitation, desire to be like others and have what they have—to be in fashion.
Worship, love, and awe of the Divine.
Constructiveness, desire to make things.
Curiosity, desire for knowledge, education, travel.
Desire for justice and fair play.
Amusement, desire for entertainment and recreation.
Acquisitiveness—desire to own things.

The salesman must appeal to these motives in making sales. Some of them are more important than others. Their importance varies with different buyers. The salesman must study his prospects and select the motives that are best adapted to each of them. One man is very fond of his children and can be reached best through an appeal to his affections. Another is vain. The salesman may appeal to his pride. Another likes money and can be successfully reached by being shown how he can make a profit.

The sale analyzed.—The steps in making a sale are:

The preapproach.
Securing the interview.
The approach, securing attention.
The sales talk, securing interest, desire, and action.
The departure.

The preapproach.—The preapproach is the work that

should adapt his talk to the needs and characteristics of the prospects. He cannot ordinarily learn enough about the buyer's needs and personality during the interview. He should, therefore, learn something about the buyer and his needs, and should plan his sales talk before he makes a call.

A life insurance salesman should find out something about his prospect's income, age, family, and property before he calls. He can then present a definite plan of protection and saving to meet his prospect's needs. Suppose he finds a prospect with a good income, limited investments, and a wife and young children. He can then suggest a plan which will provide an adequate income for the wife during her lifetime and for the children until they are grown and educated. If a prospect has young children, the salesman selling such products as books, musical instruments, or automobiles can appeal to the man's affection by showing how his product will benefit the children. If a prospect is found who likes praise and admiration, the salesman shows how his product will secure the praise of the prospect's friends. If the salesman discovers that a prospect is very ambitious to make money, he can appeal to his desire for gain.

There are many sources of information open to the salesman. He may consult directories to find a prospect's occupation or business, financial rating, and residence. Credit bureaus will often furnish information as to character, employment, occupation, and present and former addresses. Information may be obtained from hotel clerks, other salesmen, other business men, banks, news in local papers, advertisements of the prospect, and the employees, neighbors, or friends of the prospect. Time and tact may be required to gather the information, and it is generally better to spend a reasonable

amount of time in securing information about one's prospects than to make "cold" calls.

Securing interviews.—The salesman cannot arouse the buyer's desire unless he has an opportunity to talk to him. No matter how much he knows about his product or about the buyer's needs and characteristics, he cannot make sales without interviews. A great many interviews are obtained easily. Some buyers, however, may not want the salesman's goods; if they did, salesmen would be unnecessary, and order-takers could do the work. Or, the buyers may be busy and not have time to see all the salesmen who call upon them.

If the salesman has made a proper preapproach, he knows whom he wants to see, and he can thus ask for his prospect by name. This increases his chances of securing an interview. A good appearance creates a good impression and helps secure the interview. The salesman should act as if his business were important, and he should ask for the interview confidently, as if it were expected. If the buyer is busy, the salesman should offer to wait or to call again at a later time. Perseverance wins many interviews. Friendly relations with secretaries and employees in the outside office are very helpful, for they can often make appointments and give information as to the best time to call and the mood of the prospect. The salesman may write on his card that he has seen or sold certain acquaintances of the buyer. If he has sold their competitors, they are very likely to see him. The salesman may at times secure the buyer's interest by sending in a sample of his product by the office boy. Often the buyer's interest is aroused by letters or advertisements sent to him in advance of the salesman's call.

The salesman may make advance appointments by

telephone or letter. At times he secures an introductory letter from a friend or has a mutual friend make an appointment. In extreme cases the salesman may walk into the buyer's office unannounced or may secure entrance by strategy. When entrance is secured in such ways, the salesman is at a disadvantage, but he may feel sure that he has something that will interest the buyer. The salesman for a patented device may follow the office boy into the buyer's private office and place the product on his desk. As the product is new, the buyer knows nothing about it and is not interested until he sees it; but then he is frequently interested, and many sales can be expected if the product meets a genuine need.

The approach.—The purpose of the approach is to secure the buyer's attention. The salesman should have a good appearance, for the buyer often judges him by his first impression. If possible the salesman should approach the buyer when he is in a receptive mood.

There are several methods of approach. The salesman using the direct method gives the name of the company, usually his own name, and then starts in to explain his product.

Sometimes the salesman tries to secure attention by curiosity. For example, he may say that he has a plan whereby the buyer may secure financial independence for his old age. This naturally arouses the curiosity of the buyer and secures his attention.

Enthusiasm may be used to secure attention. If the salesman is enthusiastic about the product, the buyer is inclined to think that it is worth looking at.

A demonstration often makes an excellent approach, for it shows the buyer what the salesman is talking

about. We learn much more quickly through the eye than through the ear. The salesman mentioned above who placed his product on the buyer's desk and began to explain its operation used the demonstration method. Salesmen can often place a sample in front of the buyer before they begin to talk. The salesman for a check writer may set his machine down and turn out a specimen check before he begins his talk. Sometimes the demonstration approach is dramatic; thus a glassware salesman may roll a sample along the floor as he enters to show that it is not easily broken.

The hobby approach.—The hobby approach consists in starting to talk about the buyer's hobby. The salesman sees a large framed trout in the buyer's office and asks about where the fish was caught. This starts a conversation about fishing and may establish friendly relations between the buyer and the salesman. A salesman noticed in the paper that the son of a prospect had won a very difficult sail boat race. Knowing something about boating, the salesman started the conversation by complimenting the prospect on the success of his son. The father was very proud of his son and a very interesting conversation ensued, and the salesman got the buyer in a very favorable attitude before he began his sales talk.

The hobby approach can be used successfully, but it must be well done to be effective. The salesman must know enough to talk about the hobby intelligently, and the buyer must have time for the conversation. The salesman who must tell his story in a few minutes cannot talk about hobbies. Buyers are often too busy to talk hobbies during business hours. Suppose a buyer is interested in baseball and twenty salesmen call upon him daily. If each salesman tries to talk baseball, the

subject gets very tiresome. The buyer's reaction is unfavorable, and the salesman who uses this method in a casual way lessens his chances of making a sale.

Securing undivided attention.—The buyer will often admit the salesman and continue with other work, expecting to divide his time between two things. The salesman should not begin his talk under such circumstances. If a demonstration cannot be used to secure full attention, the salesman should wait. Often it is a question of perseverance as to which will wait the longer, the buyer or the salesman. To force the issue the salesman may offer to return at another time when the buyer is less busy.

Chapter 27

Review Questions

1. What is salesmanship?
2. What steps are involved in making a sale?
3. What is the difference between salesmanship and order-taking?
4. Is salesmanship necessary? Why, or why not?
5. What are the different types of salesmen?
6. Name the important buying motives.
7. What use should the salesman make of buying motives?
8. What are the different steps in making a sale?
9. What is meant by the preapproach? What can you say of its importance?
10. What sources of information can a salesman use in securing advance information about his prospects?
11. How may the salesman secure difficult interviews?
12. What is meant by the approach? What is its purpose?
13. What is meant by a demonstration approach?

14. What is meant by a hobby approach? What do you think of this type of approach?

15. What should the salesman do when the buyer tells him to go ahead with his sales talk while he goes ahead with other matters?

Thought Problems

1. How many people do you know who have everything they want that can be purchased with money? Does the answer to this question throw any light on the need for salesmanship?

2. Give as many meanings as you can of "salesmanship."

3. How may a life insurance salesman find out about a prospect's income, age, family, and amount of insurance before he calls upon him?

Chapter 28

The Sales Talk

As soon as the salesman has secured the buyer's attention, he starts in to explain his product—to deliver his sales talk. In order to make a sale, he must get the buyer interested, arouse his desire for the product, and induce the buyer to make a purchase.

Securing interest.—The buyer is primarily interested in himself, his business, and his family. The salesman should talk from the buyer's viewpoint. He should show what his product will do for the buyer. He should place more emphasis on the use of his product by the prospect than on the product itself. This is known as the "you" attitude. This attitude is a fundamental of good salesmanship.

Questions are often an effective way of securing interest. The salesman asks, "How much does your coal cost?" This concentrates the buyer's mind on the subject of fuel and very likely arouses his curiosity to know whether the salesman has a plan for reducing this cost.

The salesman should appeal to the buying motives that he feels are best adapted to his prospect and his product. To do this he must know something about his prospect, or must "size him up" during the interview. Many buyers can be reached through an appeal to profit —the main appeal in the sale of goods to business concerns. The salesman should tell how his product will increase the buyer's sales or will add to his profit. If the salesman has a machine that saves labor, he points

out the saving. If the machine is strongly built, he points out its durability and the small cost for repairs. He shows how it is real economy to buy a superior product.

Affection is a strong motive with most buyers and can be utilized by salesmen selling products to be used by the buyer's family. The washing machine salesman tells how the product will save the wife much hard toil. The radio salesman tells how much enjoyment the family will secure from the radio.

Many buyers can be reached through pride. The salesman for an expensive automobile points out how much pleasure is obtained from owning and riding in such a fine car. "And besides, the depreciation and repairs are so much less on a really good car than on a cheap car." Thus the salesman brings in economy and makes two appeals.

Arousing desire.—The salesman wants to develop interest into desire. The change often takes place so gradually that neither the buyer nor the salesman know exactly when it occurs. The salesman should appeal to as many motives as possible. He needs to know his product and its uses thoroughly so that he can fully explain it to the prospect. He must arouse confidence in his product; this may be done by demonstrations, by showing testimonials, by giving the names and experiences of satisfied users, or by telling about the quality of raw materials and workmanship employed in its production. To establish confidence in his firm, he can tell about its age, size, and reliability. Enthusiasm and sincerity will do much to gain confidence.

Demonstrations should be used whenever possible. The salesman must appeal to as many of our senses as possible. When he talks, he only uses the sense of hear-

ing. If he can show his product, he uses the sense of sight, and most people learn much more quickly by sight than by hearing. If he puts the product in the buyer's hands, or gets him to try it on, he appeals to the sense of touch; and in the sale of foods he can appeal to the sense of taste. The sense of smell can be used less than the other four senses, but it may be used in the sale of such goods as perfumes, soaps, flowers, and foods.

The salesman should be very careful not to make negative suggestions or to ask questions suggesting negative answers. Positive suggestions and questions should be used. For instance, "Isn't that pretty?" "Doesn't that fit in with your present equipment?"

Meeting objections.—The buyer often has objections which must be answered before he will buy. The salesman should anticipate as many of these objections as possible in his sales talk. To illustrate, if a salesman is selling an automatic water heater, he can point out during his sales talk that its greater convenience more than compensates for the little extra cost of its operation. If a common objection to his product is its high price, he should give such a convincing talk on its quality and advantages that the buyer will think it well worth its price.

The salesman should be able to answer the objections raised by the prospects. If the prospects say that they cannot afford the product, the salesman may reply that they cannot afford to do without it and proceed to show the savings or the extra profit derived from its use. He may say that the article can be bought on credit with easy payments. If the prospect means that he cannot afford it because he prefers to spend his money for other things, the salesman tries to show that, after all, more satisfaction is obtained from his product. For example,

the prospect objects to the price of a high quality mattress. The salesman replies that the average person spends one-third of his life in bed. "When such a large part of your time is spent in bed, shouldn't you have the most comfortable mattress?"

If an objection is made to the quality or design of the product, the salesman should admit any defects but show the superiorities of his product. If the prospect objects to a washing machine because there is no apron to guard the motor, the salesman admits the lack of an apron but points out that the apron was left off to lighten the machine and make it easier for the woman to move. He goes on to say that the guard is little or no protection. Thousands of tests have shown that the motor is absolutely safe. Besides if the motor should short circuit, a metal apron would afford no protection.

If the dealer says that business is bad, the salesman points out that the dealer cannot expect to keep up his sales with incomplete stocks. This objection often reflects the pessimism of the buyer. The salesman may try to dispel this by naming other customers whose business is good. If the dealer says that he is all stocked up, the salesman may ask permission to examine the shelves to see if the stock of some sizes, styles, or grades is low. If so, the salesman points out what additional stock is needed. If the dealer's line is complete, the salesman may say that the dealer can add an additional line, or that his product sells faster or carries better profit than those now handled. He may ask for a trial order. If these requests are denied, the salesman may try for an order for future delivery, or try to establish friendly relations as a basis for future sales. The salesman should be careful not to oversell the dealer. The advantages of a rapid rate of turnover have been previ-

ously explained. If the salesman sells the dealer goods which do not move, he is injuring the dealer and creating ill will for his company and himself. On the other hand, a dealer with a small stock of an article will not push its sale as much as he will when he has a large stock.

The salesman should study all of the objections which he meets and secure answers to all that can be answered. No product is perfect, and where valid objections exist the salesman should frankly admit them but also tell of the compensating advantages.

Action.—The close is ordinarily considered the most difficult part of salesmanship. The proper time, or the psychological moment, to close is when the prospect is ready to buy. The salesman can lead up to the close and, if the prospect is not convinced, continue with his talk, giving additional information, covering new points, answering objections, and reassuring the buyer. The salesman should assume that the prospect is going to buy and should act on this assumption. He should not suggest by any word or action that the buyer is not going to make a purchase.

Close on a minor point.—The salesman may shift the decision to a minor point. The clothing salesman, when he feels that the customer has almost reached a decision, starts to take his measurement. He asks if the coat sleeve is the proper length. He thus takes it for granted that the customer is going to buy the suit. The customer has his mind shifted from the question of whether or not to buy to the question of the proper length of the sleeve. Thousands of suits have been bought on the length of the sleeve or the fit of the coat. If the salesman has different colors, styles, or finishes of his product, he may shift the decision to such matters.

The specialty salesman often says: "I have two deliveries, one on the 15th of April and the other on the 2nd of May. Which time would be more convenient for you?" The buyer is undecided about making the purchase and is trying hard to make a decision. The salesman shifts her decision to another matter. She probably replies: "If I am going to have it, I want it as soon as I can get it." Or, "You had better bring it in May; we shall be more likely to have the money then."

The signed order.—If a signed order is required, the salesman should proceed to fill it out as a matter of course. He should not suggest by any word or action that there is anything unusual about signing an order. He should act as if it were merely a part of the day's business and were done by all buyers in the regular course of business. When the order is filled out, the salesman should place it before the buyer and hand him the pen. Very often no word is needed. Often it is well to call the buyer's attention to the fact that certain terms, delivery dates, prices or discounts are written as agreed. If the buyer objects to signing the order, the salesman may ask him to read it and explain that a written order protects both parties. He may also explain that it is the regular thing. Some salesmen say that it is only a required formality and means nothing. This is often untrue. If it means nothing, why is it required?

The departure.—After the sale is closed, the salesman should leave quickly and gracefully. The buyer has given the order and has other matters to attend to. The salesman should not take up any more of his time. The salesman should pack his samples or catalogs quickly and deftly. If the buyer is watching, he should make some friendly remark about the weather, a current news item, or a topic of previous conversation. He may also

make a reassuring statement about the goods, as "I know you are going to enjoy your purchase." The main thing, however, is to get away quickly without appearing to be in a hurry.

Types of buyers.—There are many kinds of buyers. Nevertheless certain general types may be recognized. Some of the more important types, with suggestions of how they should be handled, are given below.

> *The cold, critical buyer.* The salesman should keep his "nerve," or self-confidence, and give a very business-like sales talk full of facts. He should be careful not to talk too much, not to make broad and sweeping statements, and not to overstate the merits of the product.
>
> *The self-important buyer or egoist.* The salesman should flatter this type.
>
> *The easygoing and good-natured buyer.* The salesman should establish friendly relations. The salesman likes to meet this type but should not expect sales to come too easily. Sales are often lost because the salesman thinks the sale is assured and so does not put forth his best effort. Some buyers adopt this attitude to throw the salesman off his guard.
>
> *The nervous and irritable buyer.* The salesman should be calm and polite.
>
> *The forgetful buyer,* or the type that has difficulty in concentrating and reaching decisions. The salesman must go slowly and repeat often. He should help the buyer to decide and should narrow the choice as rapidly as practicable to make the buyer's decision easier. Salesman must arouse confidence. This may be done by testimonials or by naming users, as such buyers may imitate people in whom they have confidence.
>
> *The opinionated buyer* who has strong opinions on politics, religion, business conditions, economic reform, etc. Such people are likely to be very talkative. The salesman should keep on the subject and

direct the buyer's mind to his product. The salesman should not disagree, but this does not mean that the salesman should lie by saying that he agrees when this is not the case. If the salesman has time, he may win their friendship by being a "good listener."

The impolite buyer. The impolite buyer may belong to almost any of the above groups except the easygoing, good-natured group. Under the present economic condition which produces a buyer's market, the buyers can be most unreasonable and disagreeable. The salesman should ordinarily keep his temper and politeness, no matter how impolite the buyer becomes. If the buyer goes so far as to lose his temper, this gives the salesman the advantage.[1]

Cultivated and rough buyers. Many sellers recognize two types of customers and employ different types of men to reach each class. The salesman selling the educated or cultivated buyers must be better dressed, have better manners, and use better language than the salesmen selling to the "rough-neck" class.

Constructing the sales talk.—Many companies construct sales talks for the use of their men. These are helpful, although sometimes the salesmen must change them somewhat to suit their personalities and sales methods. If the company does not provide sales talks, the salesmen should develop one or more to suit their needs. Some companies recommend the use of memorized sales talks by their salesmen. Such talks are better than no organized talks. The memorized talk, however, is dangerous in that it is not adapted to all prospects and is likely to become mechanical or parrot-like.

The sales talk should be flexible, so that it can be adapted to different buyers and to different situations. It is often well to have several talks to suit different situ-

[1] In very extreme cases, where the buyer is a bully, the salesman may win his respect and business by "calling his bluff" and showing his resentment emphatically.

ations. Thus the life insurance salesman may have talks for young unmarried men, for young married men, for men with children, for middle aged men who are beginning to think of old age and retirement, for business and professional women, for students, and so on. The wholesale salesman may have talks for rural dealers who are losing business to the trading centers, and for dealers in the large cities who are faced with competition from the chain and department stores.

The sales talk should be based on the needs of the buyers, on human nature, and on a thorough knowledge of the product. A habit talk is usually better than a memorized talk. A habit talk is one that is carefully worked out and is given in approximately the same way every time, but is not memorized and repeated word for word. The talk should be conversational in nature and should be suited to the individuality of the salesman. One salesman may use a method successfully, while another would fail if he used it. For example, one man may be able to establish friendly relations very quickly and to be very frank and confidential in his conversation with his prospects. Another salesman, who perhaps is dignified and arouses confidence by his dignity and self-assurance, might arouse the resentment of his prospects by using the first salesman's method. A third man may make sales because of his thorough knowledge and love of his products. The same basic talk may be used by these three men, but each should adapt the talk to his method of selling. One method of securing good sales talks is to have the best men in the organization give their talks. These are written down, revised, and modified, and given to the other men.

Value of sales talks.—It has been proved that trained salesmen produce much better results than untrained

men. Sales training usually includes a careful study of one or more sales talks. An insurance company prepares sales talks for its salesmen, but these talks are not required. Some of the men use them and some do not. During a recent year, the new men who used the prepared sales talks sold an average of 66 per cent more insurance than the new men who did not use the prepared talks. During their second year, the men who used the sales talks sold on the average of 114 per cent more insurance than the men who did not use the sales talks.

Chapter 28

Review Questions

1. How may the salesman secure interest?

2. How may the salesman arouse desire?

3. What are meant by objections?

4. Name some typical objections, with your answers to them.

5. What is meant by the close? How should the salesman go about closing a sale?

6. What is meant by a close on a minor point?

7. How should the salesman make his departure?

8. How should the salesmen proceed with the close when a signed order is required?

9. Name seven types of buyers.

10. How should each type be handled?

11. What is meant by a sales talk?

12. What do you think of a memorized sales talk?

13. How does a habit talk differ from a memorized talk?

14. What is meant by a flexible sales talk?

15. How should the sales talk be adapted to different types of buyers?

Thought Problems

1. Select some article or service and prepare a sales talk to be used in selling it.

2. How many types of buyers can you name in addition to those listed in this chapter?

3. Some sales executives say that most of the so-called "objections" are not objections at all but only excuses used because the prospect doesn't really want the product or because he doesn't want to tell his real objection. Do you agree with this point of view? If so, how can the salesman find the real objection?

CHAPTER 29

Retail Salesmanship

Problems in retail selling.—The same principles apply to retail salesmanship as to other kinds of salesmanship. The buyer must have her attention centered on the goods, must become interested in them, must have her desire aroused to own them, and must reach a decision and make the purchase. There is, however, one important difference between retail selling done in the stores and other forms of selling. This is the fact that the buyers come to the salesman. The customers may be attracted to the store by the display of goods in the window, by the store's advertisements, by satisfactory relations in the past, by friendly relations with the salespeople, or by the convenient location of the store.

The fact that the customers come into the store voluntarily makes the work of the retail salesperson different in some important respects from that of the traveling salesman. The prospect usually enters the store because she is interested in certain merchandise. The salesperson therefore has no problem in securing an interview, in attracting attention, or in arousing interest. He must concentrate on arousing desire and closing the sale.

In many cases the customer knows exactly what she wants before she enters the store. All the salesman has to do is to find and wrap the goods and make change, or fill out a sales ticket. In such cases he is an order-taker. In making such sales, most of his work consists of handling the goods themselves, making out sales slips,

or making change. This is not "selling," except in a legal sense. This explains why retail salespeople are sometimes called *clerks*. There is, however, an opportunity for real salesmanship in retail stores.

The preapproach.—The retail salesman does not ordinarily make a preapproach before trying to sell a prospect, for he does not ordinarily know in advance who is coming into the store. Hence it is very important that he size up the new customers on meeting them. The retail salesman, however, should know his regular customers, should remember their names and faces, and call them by name. He should know their needs, tastes, desires, approximate income, and the sizes of their families or their family relations. It makes a very favorable impression on his customers if he remembers the kind, style, or color of goods they like. Does the customer want loud or conservative patterns and what are her favorite colors? The retailer of clothing, for example, may keep a card record of the sizes, patterns, colors, and styles preferred by each customer. The salesman can look at the file and avoid having to ask for sizes and can usually show at once the proper kind of goods.

Some customers want to be flattered. Some are independent, and others want advice and help in making selections. Some want the very highest quality, while others are bargain hunters and want to be told how much money they are saving on their purchases. The salesman should remember the personal likes and dislikes of his customers. For example, the meat salesman may remember that Mrs. Jones wants the very best steak and likes it cut $1\frac{1}{4}$ inches thick, while Mrs. Smith wants a medium quality and likes it cut thin. The salesman who remembers such things pleases his customers, gives them better service, and sells them

more quickly than the salesman who does not have this information.

The approach.—The salesman should approach the customer as soon as she enters his store or department, or as soon as he is free. He should go to meet the customer. This shows interest. A frequent criticism of retail salespeople is that they are not interested in the customers. Too often they are talking to each other, or are loafing, and are too lazy or indifferent to approach the customer promptly.

The salesman should greet the customer pleasantly. It does not make so much difference what he says as how he says it. The salesman may say, "Good morning," "May I help you?", or "May I be of service?" If he recognizes the customer, he may say, "Good afternoon, Mrs. Smith, may I help you?" Or he may say, "Good morning, Mr. Jones," and wait in a manner that indicates that he is at Mr. Jones' service. Sometimes the salesman creates a favorable impression without saying a word. He approaches the customer and by his pleasant expression and his actions announces that he is ready and glad to serve her.

If the customer is "just looking around," the salesman should ordinarily remain in the background—far enough away to leave the customer entirely free but near enough to be ready to answer questions or find goods as soon as she indicates by actions or words that she wants help.

The size-up.—The size-up is very important. Different types of customers should be handled differently. If the salespeople could only know what was in the minds of their customers, they could sell more goods and avoid much criticism. If the salesman knew, for example, that the customer was feeling pretty prosperous and wanted the best, he would not start out by showing

cheap goods. On the other hand, if he knew the customer was feeling very poor and wanted to exercise the strictest economy, he would not try to talk her into buying high-priced goods.

The same customer enters the same store in different moods. At one time she is in a big hurry. She wants a certain article and wants to get it as quickly as possible. At another time she does not have a definite article in mind and wants to be shown different articles. Again, she may be just looking around in the hope of finding something for a gift. She needs to be handled differently on each occasion.

In order to size up the prospect, the salesman should observe her facial expression and how this expression changes with the presentation of different merchandise and with different suggestions. The salesman should observe the prospect's entrance. Does she seem to be in a hurry or does she enter leisurely? Is her step undecided? By observing the prospect's step, facial expression, bearing, voice, and dress, he may be able to sell her more satisfactorily and more quickly.

The interview.—The saleman's first problem is to find the customer's interest. If she does not give this information, the salesman may ask questions. If the article is carried in a number of sizes, grades, brands, colors, or styles, the salesman may ask questions to find more exactly what the customer wants. Thus he may ask, "Size 32?" or, "Do you prefer a dark or light color?" The salesman, however, should not narrow the choice too much. For example, the "salesman" asks the size of the hat and finds that the prospect wears a 7½, then asks for the color and finds that the prospect prefers a dark gray, and then discovers that he does not have a 7½ dark gray hat in stock. He has placed himself at

a disadvantage. Perhaps the buyer had no definite preference and would have just as readily taken a light gray or a brown, if the salesman had not forced him to express a preference. However, he has gone on record as wanting a dark gray. The salesman must lose the sale or persuade the customer to take another color.

A distinction may be made between convenience and shopping goods. The customer usually knows what she wants when she enters a store to buy convenience goods. She generally asks for the product by brand, by size, or by color. It is usually best for the salesman to hand out the goods desired at once, although he may also offer substitutes. With shopping goods, the matter is different. The customer usually does not know exactly what she wants. She usually wants to look over a variety of goods and make a selection. The salesman should not ask too many questions before he begins to display his wares. He should watch the customer and take away promptly the goods in which she is not interested. He can determine her preferences as to color, style, and price by the way she examines the goods and by her remarks. When she cannot make up her mind, the salesman may concentrate his efforts on the article which he feels is best suited to the buyer or to the article that he feels that she really prefers. He talks about the advantages of the article, how it will serve her needs, and how much satisfaction, service, and pleasure it will give.

Selling to two people.—At times the salesman must sell to two or more people. This is usually more difficult than selling to one person. Man and wife may shop together, or the customer may bring a friend. The salesman needs an unusual amount of patience and tact when two people must be sold. At times he must show goods until he finds something that both like. At other

times he tries to determine which person dominates the purchase and concentrates on her—without appearing to ignore the other. When he finds which article the dominant person prefers, he tries to secure the approval of the other by pointing out its good points and asking questions that suggest affirmative answers. To illustrate, "That's a beautiful color, isn't it? Doesn't that harmonize nicely with your furniture?"

Substitution.—It often happens that the desired article is not in stock. The salesman may then offer a substitute or offer to order the article for the customer. He should not offer a substitute as the desired article, but he may indicate that it is of equal or better quality. He should not push the substitute unless the buyer is interested. If she is interested, however, he should proceed with the sale just as if the article had been requested in the first place. At times the salesman may feel that another article would meet the buyer's needs better than the one requested; or he may prefer to sell a substitute article because it carries a larger margin or because he has an overstock. In such cases he should first show the article asked for. He may then say, "Here is another article which I believe you will like better," or "Here is a better value." In no case should a substitute be forced on the buyer. Neither should a substitute be offered unless it is adapted to the buyer's needs.

Creating desire.—Creating desire is the most important part of selling. It is in this aspect of selling that retail salespeople are weakest. It is more difficult for them to create desire than for wholesale and specialty salesmen, because retail salesmen cannot use "high pressure" methods or force sales. If they do, they are in danger of antagonizing their customers.

The weakness of retail selling is illustrated by the

figures in Table 44 which show the ratings of salespeople made by their customers. The salespeople were rated on five qualities: their personal appearance; their approach; their interest in the customer, in the merchandise, and in the store; their knowledge of the goods—uses, qualities, colors, and styles; and their ability to create desire. It will be seen that these salespeople had

TABLE 44.—RATING OF 106 RETAIL SALESPEOPLE

	Rating of Salespeople		
Quality Rated	*Good*	*Fair*	*Poor*
Appearance	58	29	19
Approach	53	24	29
Interest in customer and goods*	47	31	27
Knowledge of goods	59	27	20
Creation of desire	24	30	52

*One salesperson not rated on this factor.

the best rating on their appearance and on their knowledge of the goods. One-half of the salespeople had a "good" rating on these factors, and only one-fifth had a "poor" rating. The approach of these salespeople was not quite so good. Their interest in the customers and in their work was quite a bit poorer. In their ability to create desire they ranked very low, only 24 of the 106 salespeople having a good rating, while 52, or approximately one-half, had a poor rating.

Why is it that salespeople who have a good appearance, who know how to approach their customers, and who have a good knowledge of their goods fall down miserably in making their prospects want the goods? The answer must be either that many of these people know nothing about salesmanship and have no ability to sell, or that they have become so accustomed to filling orders that they have forgotten how to practice salesmanship and have degenerated into "clerks." Desire can be created by knowing the customer's needs, knowing

the goods and their uses, and picturing in an interested and enthusiastic way the satisfaction which the goods will give.

The close.—The retail customer often brings the sale to a close by saying that she will take the article. If she is undecided, the salesman can use the methods of closing previously described, such, for example, as closing on a minor point, answering additional objections, or giving additional information to strengthen the desire. When the customer is undecided, she often says that she wants to look about a little more or that she wants to think the matter over. This sometimes places the salesman in a difficult situation, as he and the goods will probably still be available after she reaches a decision. At times he points out that an immediate decision is desirable as the article may be sold to someone else if she delays, or that a price advance is to be expected. At other times he may try to answer the buyer's unstated objections or he may go back and try to strengthen her desire. He must, however, be careful not to attempt to force the sale in such a way as to antagonize his prospect.

Some salesmen try to close the sale by suggesting that the customer take the article home and "if you don't like it, you may return it." This is usually very poor business as it increases the amount of returned goods and increases the store's expense. It should be done only when the salesman feels confident that the article will be kept.

Suggestive selling.—Suggestive selling may greatly increase the salesman's volume. When he sells one article, he may call his customer's attention to other articles. These may be new goods just received, goods that are on sale at reduced prices, articles that are es-

pecially suited to the customer, or any attractive goods that the salesman feels are adapted to the needs of the buyer. The salesman may say: "We have just received a new lot of very nice dresses which I believe you would like, the very latest styles"; or, "We have a special bargain today in towels"; or, "We have some beautiful blue taffeta, just the shade you like." On making a sale of shoes, the salesman may suggest, "Wouldn't you like some hosiery to match the shoes?" Or, upon selling shirts he may suggest the purchase of ties. Suggestive selling of the latter kind is known as "ensemble selling" or "selling companion goods."

The grocery salesman has an excellent opportunity for suggestive selling. Most of us are interested in foods and like a varied diet. Therefore we like the salesman to call our attention to fresh goods, new products, or articles of unusual quality. The salesman may say: "We have some very fine freestone peaches today." "We have some roasting ears fresh from the field, the best we've had this year." "How about some nice fresh blueberries? They make the most delicious pies." "We have a mighty fine value in canned peaches."

Telephone selling.—Many salesmen use the telephone to increase their sales. They may telephone on rainy days when there are few customers in the store. They may call their customers to tell them about new goods that have just been received. They may tell about goods that they feel are especially suited to the individual needs of their customers, or they may call the attention of their customers to goods on special sale.

Opportunity for real salesmanship.—By knowing his goods and his customers, by knowing how to create desire, by using suggestive selling, and by using the telephone, the retail salesman can be a *real* salesman. He

can practice a high grade of salesmanship even though a considerable portion of his time is occupied in the clerical work of filling orders. The personal traits necessary for success in selling are discussed in the next chapter.

Chapter 29

Review Questions

1. How does retail selling differ from other types of selling?

2. In what ways is retail selling easier than other types of selling?

3. In what way is retail selling more difficult than other types of selling?

4. Why are retail salespeople sometimes called "clerks"?

5. Does the retail salesman have to make preapproaches?

6. What should the retail salesman know about his regular customers?

7. How should the salesman approach and greet the customer?

8. What is meant by the size-up?

9. Is the size-up important? Why, or why not?

10. How can the salesman size up his customers?

11. What is the salesman's first problem after greeting the customer?

12. What is meant by saying that the salesman "should not narrow the choice too much."

13. What is the difference in the way shopping and convenience goods should be shown to the customers?

14. How should the salesman help the hesitating buyer to reach a decision?

15. How should the salesman proceed when necessary to sell two or more people?

16. What is meant by substitution? What rules should the salesman follow in offering substitutes?

17. Why do retail salespeople have so much difficulty in creating desire?

18. How may retail salespeople create desire?

19. What should the salesman do when the customer says that she wants to think about the purchase a little more before making her decision?

20. Should the salesman suggest taking the article home and returning it if the customer decides she doesn't like it?

21. What is meant by suggestive selling? How may it be used?

22. When and how may the salesman use the telephone?

Thought Problems

1. Some stores teach their salespeople to substitute goods under their own private brands or other goods carrying larger margins on every possible occasion when goods carrying smaller margins are requested. Other stores instruct their salesmen never to substitute. What do you think of these two policies? Which is the better? What policy should a retailer follow in regard to substituting?

2. What do you think of reading peoples' characteristics from the shape of their heads, features, and the color of their eyes and skin?

3. Do you think that it is possible for the salesman to size up his customers by observing their actions and words closely? Give your reasons.

4. Visit retail stores and rate the salespeople who wait on you on blanks like that on page 480 marked "Shopper's Report on Retail Salespeople." You do not have to make purchases, but you should act naturally as a real prospective buyer. (Prepare the necessary blanks for the number of reports required by your instructor.)

SHOPPER'S REPORT ON RETAIL SALESPEOPLE

Store ____

Date and hour ____

Name or number or description of salesperson ____________________

____

Article ____

Points observed:	Value	Rating			
		Good	Fair	Poor	Remarks
Appearance	15%				
Approach	10%				
Interest in customer, merchandise, and store	15%				
Knowledge of goods, uses, colors, qualities, style, etc.	25%				
Force or ability to create desire	35%				
Total rating percentage	100%				

(80–100%, Good; 60–79%, Fair; under 60%, Poor)

Comments:

Did salesperson offer to substitute?

Did salesperson use suggestive selling?

Promptness in wrapping, making change, or making out sales slip or want slip?

Did salesperson call back amount of money in making change?

Would you want the salesperson to wait on you again?

Other comments:

CHAPTER 30

Success in Selling

Qualifications for success.—Success in selling depends upon knowledge, hard work, and certain personal traits or qualities. These qualifications may be summarized as follows:

I. Knowledge of:
   A. Goods
   B. Principles of salesmanship
II. Personality:
   A. Obvious or superficial aspects:
      1. Appearance—neatness, clothes, bearing or posture
      2. Facial expression
      3. Pleasing voice
      4. Manners (courtesy)
      5. Breath not offensive
      6. Ability to talk intelligently on a variety of subjects
   B. Fundamental traits:
      1. Good health
      2. Honesty
      3. Industry
      4. Perseverance
      5. Self-confidence
      6. Enthusiasm
      7. Sincerity
      8. Initiative
      9. Tact

Many of these qualities are necessary for success in any kind of work; some of them are especially impor-

tant for success in selling. Specialized knowledge is necessary for success in almost any line of work. A pleasing personality is helpful in any vocation but is particularly important for the salesman. Of the fundamental, or character, traits, the first four are very important in any calling, while the last five are especially important to the salesman, although they, too, are important in many other kinds of work.

Knowledge.—The salesman needs to have a thorough knowledge of his goods and of their uses, and he should be able to impart this knowledge to others. He should know the principles of salesmanship as explained in the preceding chapters. The salesman should know all about his product—how it is made, the kind of raw materials used, the reason for its design, and the advantages of all attachments. He should understand all of its uses. He should know the services his company renders and its policies.

The salesman should also know all about competing products, so that he can answer objections. He should not "knock" his competitors or their goods (unless they are fraudulent). He should not ordinarily mention his competitors unless the prospect brings them into the discussion.

The salesman should know his goods so thoroughly that he can see talking points sticking out all over them. Here is an aluminum teakettle. One man sees only a teakettle. The salesman, who knows his product, however, sees much more than a teakettle. He sees that it has a wooden handle that does not get hot easily. He sees that this handle is hexagonal so that the hand can grip it tightly. He sees that the handle ears are welded on and not fastened on with rivets which will wear loose. He sees that the spout is welded on. He sees that the

ears which hold the handle are so made that the handle cannot touch the hot sides of the kettle. He sees that the lid of the kettle has a wooden knob which will not burn the hand when one is lifting it. He sees that the kettle has a very wide base which decreases the time necessary for heating. He sees the very fine finish on the metal. He sees the trademark, and he knows that this stands for reputation and gives a guarantee of high quality.

Securing information.—Many companies have training courses or sales manuals which give much information on the company's products; the salesman should study these sales manuals when they are available. He should read trade papers covering his product, as they contain much valuable information about the product and how to sell it. Books treating the products may also be available, and study and use of the product itself is extremely helpful. The salesman should talk to users of the product. The retail salespeople can give the wholesale salesman much valuable information.

The retail salesman.—Retail merchants all too frequently fail to give their salespeople the information necessary for the intelligent sale of their goods. Regardless of the training given by his employer, the salesman should study his goods and obtain information for himself. He should listen to the sales talks given by the wholesale salesman, when this is possible. He should read the labels on the packages and find what claims are made for the goods and what instructions are necessary for their use. He should read one or more trade papers in the field. He should read women's magazines. These magazines will give much information about various kinds of goods used in the homes, about the advertising that is reaching the women, and about the woman's

point of view. This is important, for women make up the majority of purchasers in most retail stores.

Many manuals have been prepared covering various lines of merchandise, such as suits, sweaters, hosiery, men's furnishings, glassware, silks, house dresses, jewelry, notions, household furnishings, and so forth. The salesman should visit the libraries and write to publishers[1] and to trade papers to find out what manuals are available in his field, and obtain those suited to his needs. The salesman should listen to his customers and to other users of his products. He can learn much in this way. Experience in the stockrooms and in the service department will teach him much.

Time for study.—Any ambitious person is glad to use a portion of his evenings for the study of his work. Salesmen should also find plenty of time for study at other times. The traveling salesman spends much time waiting for interviews. If he travels by train, he has much time on the train which can be used for study. The retail salesman has much spare time while waiting for customers. Although he must be ready at all times to serve a customer on an instant's notice, he may be able to find time to study the sales manuals, trade papers, and his goods when no customers are in his department.

Can a salesman know too much about his product?—It is sometimes argued that it is dangerous for a salesman to know a great deal about his product because of the danger of boring his customers with details which do not interest them. This is an argument against the

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[1] The Research Bureau of Retail Training, University of Pittsburgh, Pittsburgh, Pa., and The McGraw-Hill Book Co., Inc., and The Ronald Press Co., both of New York City, publish series of sales manuals covering various types of merchandise.

abuse of knowledge and not against knowledge itself. The salesman should have the knowledge to use when necessary—he should use just what he needs in making his sales talk and should keep the rest in reserve for answering objections and for those customers who want complete information.

Personality.—A good personality is always listed as an essential qualification for success in selling. There are many aspects of personality. Speaking narrowly, personality is the appearance a person makes and the impression which he creates on first acquaintance. Speaking broadly, personality includes not only one's appearance, voice, and manner, but all of his traits of character and all of his habits.

Appearance.—One is often judged by his appearance. It is therefore important that the salesman make a good appearance. The salesman should be clean and neat. It is not necessary to wear expensive clothes, but the clothes should be clean, the suit pressed, the shoes shined, and the tie straight. The salesman should carry himself well: he should walk erect with a brisk step and shoulders back. Clothes do not make the man, but knowing that he makes a good appearance will help the salesman to maintain his self-confidence. The salesman wants to center attention on his goods and should therefore not attract attention to himself by his attire. His clothing and accessories should be conservative, and loud colors and unusual adornments should be avoided.

Facial expression.—The facial expression should be pleasant. A scowl, frown, or pessimistic expression hurts one's appearance.

Voice.—The salesman should cultivate a pleasing voice. A man who is very successful in his personal relations with others says that he tries to pitch his voice slightly

lower than the person to whom he is talking. A harsh, shrill, or coarse voice is repulsive. One should pronounce each word distinctly and should avoid talking too fast. The salesman should cultivate his vocabulary so that he can use words properly. Short, simple words are preferred, but the vocabulary used should vary somewhat with the prospects. The salesman should not talk "over the heads" of his prospects. He must be more careful in his language when talking to educated and cultivated people than when selling a rougher class of buyers. Some slang is permissible, but the salesman should use it with care. The salesman should avoid profanity. Some buyers may not object to it, but a great many do. The salesman who uses profanity is in constant danger of offending some of his prospects. The absence of profanity offends no one.

Manners.—The salesman should cultivate courtesy and good manners. Rudeness should be avoided at all times. A bad breath is very offensive to prospects, and the salesman should not hesitate to ask his friends or other salesmen whether his breath is offensive.

Conversation.—It is often desirable for a salesman to be able to talk interestingly on a variety of topics. To be able to do this, he must have some knowledge of many things—baseball, golf, football, current news, and so forth. He must, of course, be very discreet in discussing religion and politics. Although it is desirable to be a good conversationalist, this is not absolutely necessary to be successful in selling.

Health.—It is very difficult for one to succeed without good health and the energy, endurance, and vitality which good health gives. The traveling salesman often has irregular sleep and meals. The retail salesman is on his feet many hours a day and spends practically all the

daylight hours inside. For these reasons, the salesman should devote time and attention to his health.

Honesty.—Honesty is a prerequisite for successful work in any legitimate business. The salesman should be honest with his customers, with his company, and with himself.

Industry.—Hard work has helped many men to success. Some men have succeeded without industry, but these are the exceptions. Unless a man is outstanding in some other way, he will lose out in the competitive struggle if he does not work hard and consistently. Footwork and shoe leather are important to a salesman's success. Industry is a trait that can be developed. A lazy person can force himself to work, and by working consistently he develops the habit of industry. Industry alone, however, will not make a man successful, for he must also work intelligently.

Perseverance.—One should not only be industrious, but should be persistently industrious. The salesman needs to keep constantly at work, even when business is bad and when he is discouraged. Salesmen often become discouraged. Disagreeable prospects must be seen. It is very easy for the salesman to make excuses and to persuade himself to take a rest. "It's too hot to sell anything." "I can't get any business this week—everyone is away on his vacation." "Everybody is too busy on Saturday to talk to a salesman." "It's too late to make any more calls today." These are typical excuses. The salesman needs perseverance so that he will not allow such excuses to cause him to stop work. Perseverance keeps a salesman calling on prospects even when the outlook for business is poor.

Confidence.—A salesman needs confidence in his product, in his employer, and in himself. If he does not

sincerely feel that he has a good product, he should not sell it. If his employer does not deserve his respect and confidence, he should get another job. If a salesman loses his self-confidence, it is very hard for him to convince others, and this means that it is very hard for him to make sales.

Self-confidence is a belief in one's self and in one's ability. It grows out of accomplishment, out of successful work, and out of a knowledge that one can do things. It develops from a knowledge that buyers have been met and sales have been made. When just beginning work, or when sales are few, the salesman often needs courage and "nerve" to keep up his confidence. He must think in terms of success. He should remember that the other fellow is just a human being like himself. Some people have too much confidence—are over-confident. It is better for a salesman to have too much than too little confidence. Yet over-confidence is dangerous, for it leads the salesman to depend too much on his own ability and not enough on knowledge of his goods, on the preapproach, and on planned sales talks.

Enthusiasm.—Enthusiasm is described as "exalted or ecstatic feeling," and as confidence energized and put to work. A salesman may be said to be enthusiastic when he is sincerely excited about his product. Enthusiasm is a great help in selling because it is contagious and helps to arouse the prospect's desire. It has been said that most of the worthwhile things in the world are done by enthusiastic people.

Some people are naturally enthusiastic, while others must develop their enthusiasm. Enthusiasm may be developed by a thorough knowledge of the goods. If one knows his goods thoroughly and the satisfaction which they give, enthusiasm is easy to develop. It is

said that there is a romance behind every product; it may be in the way the product was discovered or the method of producing it, in a description of the countries from which the raw materials come, in the methods of manufacture, or in the work which the product does.

Sincerity.—A person is sincere when he is in reality what he appears to be—when he means exactly what he says. The salesman is sincere when he has an honest and genuine belief in what he says. Sincerity carries conviction. The buyer is inclined to be suspicious of the salesman's enthusiasm, and if he feels that the salesman is insincere, he discounts all of his statements. But if he believes that the salesman is sincere, what the salesman says carries weight.

Initiative.—The dictionary defines initiative as "ability for original conception and independent action." Initiative is to a person what the self-starter is to an automobile. Many people do not have self-starters and must be "cranked up" to get action. The man with initiative can meet new circumstances. He is able to think of plans in emergencies, and he continually does more than is expected. The exercise of initiative develops judgment, and, when coupled with industry and good health, it gives vitality and aggressiveness. Aggressiveness is very important in a salesman, particularly in the specialty salesman. The salesman is always meeting new situations. No two customers are exactly alike. Initiative helps the salesman to meet new situations and to work out answers to new objections. The retail salesman with initiative does not wait for his employer to give him information about his goods to begin studying them.

Initiative keeps a person out of a rut. People are prone to get in the habit of doing the same old things

in the same old ways. The salesman too often gets in the habit of calling on the same customers and of saying the same things. Initiative will help him secure new prospects, new facts, and new sales points.

Tact.—Tact has been defined as a mental alertness which enables us to say and do what is right under the circumstances. It is a quick appreciation of what is fit or proper. To the salesman it means that he varies his manner and his method to fit his prospects. It involves the use of patience, cheerfulness, courtesy, and graciousness. Some people think that tact depends upon intuition and cannot be developed—that one either has or does not have it. Some people are naturally more tactful than others. Nevertheless tact can be developed to a certain extent. It is based on the "you" attitude, of considering what is going on in the other fellow's mind, and of thinking of how he will react to certain statements and actions. Thus if one will develop the habit of observation and of thinking from the other fellow's viewpoint, he can develop tact.

As the salesman's job is to influence others, he should be very tactful. The salesman who is tactful varies his manner and his method to fit his various customers. He refrains from doing or saying things to hurt their feelings and avoids arguments.

Tact is often in conflict with some of the other traits that are needed by the salesman. The person who is aggressive, who has initiative, who is enthusiastic, and who possesses a great deal of self-confidence is likely to be untactful, for it is very hard for a person to develop his self-confidence to a high degree without becoming egotistic. The egotist usually lacks tact. It is possible, but difficult, to possess to high degrees both self-confidence and tact.

Other traits.—Many other qualities that are desirable for the salesman might be listed. Among these are imagination, courage, optimism, and the ability to benefit by criticism. The salesman needs imagination in order to visualise the customer's use of the product. The salesman needs courage to enable him to call upon difficult and disagreeable prospects and to meet stiff competition. The salesman needs optimism, for without optimism it is very difficult to become enthusiastic. People dislike pessimists and it is very difficult for a pessimist to make a good salesman.

All traits not necessary.—It would perhaps be impossible to find one person who had all of the traits and qualities discussed in this chapter developed to a high degree. One may succeed because he has a few of these qualities developed to a high degree, or because he has several of them developed to a fair degree.

Chapter 30

Review Questions

1. What are the qualifications necessary for success in selling?

2. Are all of the qualifications listed necessary for success in selling?

3. Which of these qualifications do you feel are most important for a salesman?

4. What should a salesman know about his product?

5. How may a salesman secure the needed information about his goods?

6. Should the retail salesman read women's magazines? Why, or why not?

7. How can the retail salesman find out whether sales manuals describing the goods which he sells are available?

8. Can a salesman know too much about his product? Why?

9. What is personality?

10. Can one's appearance be changed? What kind of appearance should the salesman make?

11. Can one develop a pleasant facial expression?

12. Can one develop a pleasing voice?

13. How may good manners be obtained?

14. Why should a salesman have a knowledge of a variety of subjects?

15. Is good health necessary to success?

16. Can one develop good health?

17. Is industry necessary to success?

18. Can industry be developed? Are some people born lazy?

19. What is meant by perseverance?

20. What is meant by self-confidence?

21. Can one develop his self-confidence? If so, how? If not, why?

22. What is meant by enthusiasm?

23. Must one be enthusiastic to succeed in selling? In other work?

24. Can one lacking enthusiasm develop this trait?

25. What is meant by sincerity?

26. Must a salesman be sincere to succeed?

27. Can sincerity be developed?

28. What is meant by initiative?

29. Can initiative be developed?

30. What is meant by tact?

31. Does a salesman have to be tactful to be successful?

32. Is it possible to be tactful and at the same time to be self-confident and aggressive?

33. It has been said that some people are born tactful and others are born tactless. How about it?

34. What traits besides those included in the outline are desirable?

35. Does the salesman have to have all of the traits included in the outline developed to a high degree to be successful? If not, which traits do you consider the most important?

Thought Problems

1. To what extent is the employer responsible for teaching the salesman what he needs to know about the goods, and to what extent is the salesman responsible for securing this information for himself?

2. Is it better for a salesman to try to develop all of the traits listed, or to try to develop some of them to a very high degree and to depend upon his strength in these to offset his weakness in other traits?

3. How many important character traits, or aspects of personality, can you name that were not listed in this chapter? Do not include in the list terms that are only synonyms of the terms listed.

4. Rate yourself on the rating blank on page 494 or one similar to it. This is to be done in confidence and you are to state your frank opinion of yourself after thinking the matter over carefully. Rate yourself without consulting others. It is not necessary for you to show your ratings to other students nor for you to see the ratings of other students.

Before rating yourself on any trait, select the person who has the trait in question most highly developed among all the people you know or have read about. Take this person as 100 per cent and rate yourself by comparison. For example, take the most industrious person you have known or have read about and consider his industry as 100 per cent; then rate yourself accordingly. Select the most sincere person you know (probably a different person) and take

SELF-ANALYSIS CHART

Rate yourself on the following personal qualities or traits as *excellent* (90–100 per cent), *good* (75–89 per cent), *fair* (60–74 per cent), *moderate* (45–59 per cent), and *poor* (under 45 per cent).

	Percentage:
1. Appearance:	
Neatness	
Facial expression	
Bearing	
Appearance average	
2. Speech:	
Voice	
Vocabulary	
Ability to converse interestingly on a variety of subjects	
Speech average	
3. Courtesy	
4. Sincerity	
5. Enthusiasm	
6. Self-confidence	
7. Honesty	
8. Courage	
9. Initiative	
10. Aggressiveness	
11. Tact	
12. Industry	
13. Perseverance	
14. Health	
Average rating	

his sincerity as 100 per cent; then rate yourself by comparison to him.

When you have finished the ratings, study them carefully and see where you are low. Work out methods by which you will try to improve your poorest traits.

The rating blanks may be handed in to the instructor for comparison to determine the average rating of the class on each trait.

5. Using the method explained in Problem 4, rate other members of your class.

Chapter 31

Sales Management

The sales department.—A company's sales policies are formulated by the chief sales executive or by the officials or board of directors. The sales policies of a company include the method of distributing its products, its prices, its service policies, the methods used in advertising and the amount done, and the organization of its sales department. The sales department is usually in the charge of a sales manager, who carries out the company's selling policies. The sales manager's job is to hire, train, supervise, and reward the salesmen. He may also formulate or help to formulate the sales policies.

Hiring salesmen: *Type of men needed.*—Different companies need different types of salesmen. If a company sells its products to business executives, it needs well-educated and intelligent salesmen who have good manners, and who make good appearances. On the other hand, if it sells to the small retailers, it may use less polished men.

If a company has a technical or highly complicated mechanical product, it may need technically trained men. It may employ graduate engineers, trained chemists, or skilled mechanics. On the other hand, if the product is a simple one (such, for example, as breakfast cereals or toothpaste) technically trained men are unnecessary.

A new product needs a higher type of salesman than

a product which has an established reputation and market. For the latter, order-takers may be able to do the work.

Sources of men.—The following are some of the more common sources of salesmen: high schools; colleges; employees in the office, stockroom, or factory; experienced salesmen with other companies; retail salespeople; and men in other kinds of work who feel that they have sales ability.

The company with a technical product may want university graduates. The machine company may select mechanics from its own or other factories. A wholesaler may select his salesmen from promising retail salespeople. The retail store may select its salespeople from high school graduates and friends of present employees. Some companies prefer to hire experienced salesmen and may take men from competing concerns or from salesmen who have sold other types of products. Other companies prefer to hire men without sales experience and train them to suit their needs. Some companies hire office boys and clerks whom they feel have the ability to develop into salesmen.

Securing applications.—The sales manager may have his salesmen keep their eyes open for promising prospects among their customers and acquaintances. The sales manager may visit high schools and colleges and interview seniors who are recommended by the faculties. He may advertise for salesmen in trade and business papers. For retail salesmen and many types of specialty salesmen, he may advertise in the newspapers. Many applicants apply for positions voluntarily; this is especially true with large or well-known companies.

Selecting men.—Success in selling depends largely upon such traits as industry, enthusiasm, self-confidence,

tact, sincerity, and perseverance, which are hard to measure. We cannot merely look at a man and tell how highly he has developed these traits. The principal methods of selecting salesmen are by interviews with them; by examining their past records as obtained from application blanks, former employers, and references; and by giving trade and psychological tests.

Interviews.—The interview may be of great help in determining a man's appearance, neatness, manners, voice, bearing, and ability to meet people and carry on intelligent and interesting conversations. The employer may invite the applicant to a meal or spend some time with him socially. It is desirable to have an applicant interviewed two or three times, as he may be nervous on his first appearance; and it is also well to have him interviewed by more than one person.

In order to find out something about the applicant's self-confidence and ambition, he may be asked why he wants to sell this product; why he wants to work for this company; and how much he thinks he can earn. He may also be asked to fill out a self-rating blank similar to the one at the end of the last chapter.

Application blanks.—Application blanks usually ask for information about the applicant's education, business experience, family responsibilities, former employers, salaries received, and reasons for leaving former positions. Some employers prefer men with sales experience in the same line and some desire those with experience selling other lines, while others prefer men without any sales experience.

Married men may be preferred for local territories, as they are more steady and reliable. For large territories where the men are traveling most of the time, younger, unmarried men are likely to be preferred, since

such territories keep them away from home most of the time. For positions with small pay, the employer should know the applicant's family responsibilities. If the applicant has to support a family, he may be greatly dissatisfied or worried about financial matters and may be tempted to be dishonest.

Former employers and references.—Information is often obtained from the people given as references by the applicant. Care must be used in interpreting the information given by references, especially those unknown to the employer. The sales manager may receive more accurate information from former employers and others who know the applicant but who were not given as references. Some sales managers secure information about the applicant's character and experience from local credit bureaus. A person who has changed jobs frequently without bettering himself is likely to be a floater who will soon become dissatisfied. However, if he has bettered himself by each change, he probably possesses ambition, initiative, and self-confidence.

Tests.—Salesmen with high intelligence are needed for selling complicated products and for calling upon skilled buyers; but, on the whole, success in selling does not depend primarily upon intelligence. For this reason relatively little use is made of intelligence tests in selecting salesmen. Trade tests, however, may be used to advantage in determining how much the applicant knows about the goods and about the principles of salesmanship.

Training salesmen.—Some of the more widely used methods of training salesmen involve: sales manuals; standardized sales talks; coaching by older salesmen; sales meetings; sales conventions; work in the company's factory; and sales schools.

Many high schools, universities, and evening schools of business administration offer courses in salesmanship. These courses are usually very good, but usually are limited in that they teach only the general principles and cannot ordinarily give detailed instruction on specific products. Employers usually must give this instruction.

Many companies have sales manuals which the new men are required to study. Companies using standardized sales talks require the new men to learn these talks. New salesmen usually have their work explained to them by the sales manager or person in charge of sales training; this may be done in a few talks or in a series of lectures.

New salesmen may be turned over to older salesmen who explain the goods to them and who show them how to make sales. In a retail store the new salesgirl is often turned over to an experienced salesgirl who acts as her sponsor until she learns her duties. New field men may be assigned as junior salesmen to work under senior salesmen. Training may also be given by special coaches, by supervisors, or by the sales manager.

Many companies have regular sales meetings at which the merchandise, sales methods, and company policies are discussed. Such meetings may be held weekly or less frequently. Sales conventions are usually held once or twice a year and are designed to stimulate and instruct the salesmen. Both sales meetings and conventions are primarily for the older salesmen, or the company's dealers, but they may also be used in training new men.

Many companies have regular sales training courses. These are often a combination of work in the classroom with work in the plant, stockroom, warehouse, and office. The courses vary from a few weeks to several months

in length. They give the new salesmen a knowledge of the company's products, organization, sales methods, and the principles and practice of salesmanship. Training courses are more often conducted by large companies, which need many salesmen and hence can afford the expense of conducting the courses, than by smaller companies. Smaller companies often secure trained men after they have had experience in selling with others. Sales training courses may be given to new men or may be given only to men who have demonstrated by actual work that they have sales ability.

A small, well-trained sales force is often better than a large and untrained force. Some companies have increased their sales from 25 to 200 per cent by a complete and thorough training of their salesmen. Often the increased volume has been secured with a reduced number of men.

Supervising salesmen.—The sales manager should watch his men and check their work closely. He wants them to cover all of their territories, call upon all of their prospects, push all products, send in the required reports, treat their customers properly, and carry out the company's policies. Salesmen are likely to skip territories which are hard to reach and prospects who are not promising. They often fail to use the sales talks and methods of approach recommended by the sales manager. They may fail to give demonstrations, to put out advertising matter, or to properly service the company's products. Salesmen may fail to serve the customers promptly, may fail to give full information about the goods, may be rude, may fail to make out want slips, may fill out sales slips incorrectly, or may be slovenly in appearance.

It is evident that the proper supervision of salesmen

is a difficult task. This is particularly true of traveling men. Some companies provide supervisors who spend their time in the field visiting the salesmen and accompanying them on calls upon their prospects. Retail stores often employ, in addition to department managers and floor supervisors, professional shoppers who visit the stores and report on the treatment received from the salespeople.

Research, or analysis, is often helpful in sales supervision. In addition to showing the total sales volume of each man by products, it may show the number of customers visited, the sales to each customer, the number of new customers secured, the number of old customers lost, and the profit realized by each salesman. Such analysis often shows that some salesmen do not push the full line and that others do not call upon all of their customers regularly. Analysis may show, for example, that salesman Jones is not selling a part of his line to customer Smith. The matter is called to Jones' attention, and if there is no good reason, he is told to make a special effort to sell the entire line to this dealer on his next call. When such information is called to the salesman's attention, he knows that his operations are being checked, and he is not so likely to be careless.

Stimulating salesmen.—Traveling salesmen work by themselves. They are calling upon buyers who are often uninterested or hostile. It is very easy for them to become discouraged, and it is hard for discouraged men to get good results, for success depends to a considerable extent upon enthusiasm, confidence, and energy. The sales manager's task is to keep his men enthusiastic and energetic. To do this he writes them letters, visits them in the field, calls them together for sales meetings and conventions, or issues a house paper (organ). No two

salesmen are exactly alike, for which reason they need the personal attention of the sales manager. The manager may have to encourage one man with praise and scold another man for his laziness. He should maintain strict discipline and at the same time secure the respect, friendship, and confidence of his men.

Sales contests are often used to stimulate men. Prizes may be given to the men who sell the most goods, who secure the largest increase in sales, who make the most calls, or who secure the largest number of new customers. The salesmen may be divided into teams and contests may be staged between the different teams. The successful salesmen have their names in the house organ and, if they become more successful, have their pictures printed with accounts of their methods. The house organ thus helps to stimulate the men and to build morale.

The most important method of stimulating the men, however, is through their pay checks.

Paying salesmen.—The most widely used methods of paying salesmen are the straight salary, the straight commission, the salary and commission, and various forms of bonuses.

Straight salary.—The straight salary is a very widely used method. It is used by many retail stores, by many manufacturers and wholesalers whose men cover regular territories, and by manufacturers of industrial equipment whose sales are irregular. The straight salary method gives the employer control over his men. As they are paid for their time, he can require them to do other work than selling—such as cleaning up stores, arranging stock, putting up displays, arranging displays in customers' stores, repairing goods, making out reports, or hunting for new prospects. The assured salary takes

away a part of the incentive for "high pressure" tactics which are so common when the men are paid by commissions. The assured salary relieves the men from worry, which is so common with men on straight commissions, and leaves their minds more free for selling. It gives a more permanent force of men. Men paid on a commission basis are hard to control, have little loyalty to the house, and are likely to quit at any time.

In the sale of industrial equipment, orders may be very irregular, depending upon business prosperity. Several salesmen may be involved in securing an order. Negotiations may extend over many months. In such cases, salaries seem to be the only method of paying the salesmen, although some form of bonus or profit sharing may be added.

The principal disadvantage of the straight salary method is that it does not offer a strong incentive for the men to increase their sales. Increased sales do not lead to immediate increases in pay. Therefore the salesman may not put forth the effort required to increase his sales volume. This disadvantage can be partially overcome by increasing the salesman's salary when he increases his sales. The practice of raising salaries as soon as sales are increased, however, is dangerous. To illustrate, suppose that a salesman works for a jobber whose margin will allow 2 per cent for salesmen's salaries. The salesman has been selling $100,000 a year and receiving a salary of $2000. In a given year, he sells $150,000 worth of goods and asks for a salary increase to $3000. The increase in sales may have been caused by business prosperity or some other reason aside from the salesman's efforts. If the jobber gives the increased salary and the man's sales drop back to $100,000, his salary cost rises to 3 per cent. Since the

salesman objects to a cut in salary, the jobber must either stand the increased selling cost or let the salesman go. This illustrates why employers are often slow in raising salaries. It also shows how the selling costs increase under the salary method of paying salesmen. However, if the employer does not increase the salaries as the salesman increases his sales, then the salary method does not offer the salesman an incentive to do better work.

The traveling salesman working on a salary usually has his expenses paid. The employer may pay all traveling expenses as reported by the salesman, may make a flat monthly allowance for expense, may pay expenses of a certain fixed amount per day or per mile for distance traveled, or may pay all expenses as long as they are within a given percentage of sales.

Straight commission.—Under the straight commission method, the salesmen are paid a definite percentage of sales and they pay their own expenses. The principal advantage of the straight commission method is that it gives the men a very definite incentive to increase their sales: increased sales mean increased pay. The employer has a definite selling cost. He does not have to over-pay salesmen who get little business, for they are paid for all sales they make; if their sales decline, their pay declines. The straight commission method is often used for new products, for products that are hard to sell and require real sales ability, and in sales organizations where the salesmen must find their own prospects.

The straight commission method has several disadvantages. The salesmen often use "high pressure" methods and antagonize the buyers; they are hard to control; they object to doing any work except selling; they change positions frequently; and they are often

poorly trained. Salesmen working on a commission basis are inclined to cut prices and to push the goods that are easiest to sell. A salesman might actually sell a large volume of goods and yet lose money for his employer. To avoid this situation, he may be paid different percentages on different products, or a certain percentage of the margin, or a certain percentage of the profit on the goods. This method forces him to concentrate on the high-profit goods.

To secure the incentive of the straight commission method and at the same time avoid its worst disadvantages, a combination of salary and commission is often used.

Salary and commission.—Under this method the salesman is guaranteed a certain salary and is paid a commission on all sales over a stated amount, called a quota. The jobber in the illustration above might have paid the salesman $2,000, plus a commission on all sales over $100,000. If the salesman sold $150,000, he would receive his regular $2,000 salary and a commission on the $50,000 in excess of his quota. If the rate of commission was 2 per cent, his commission would have been $1,000 and his total earnings $3,000. The next year, if his sales dropped to $100,000, he would receive his regular salary of $2,000.

The salesman is thus guaranteed his regular salary and so does not have to worry about supporting himself and family. At the same time he is offered an incentive to increase his sales. If properly adjusted, the salary and commission method may have most of the advantages of both the salary and the commission methods. If improperly adjusted, it may have the disadvantages of either method. If the quota is set so high that the

salesman has little hope of reaching it, the commission is no incentive to him; the plan is in effect a straight salary method. If, on the other hand, the quota is set too low, the salesman receives most of his compensation from his commissions and so becomes in fact a commission salesman. Hence the quota of each salesman should be set with care.

The rate of commission paid varies. It may be the same rate used by the employer in determining basic salaries, or it may be higher or lower.[1]

Bonuses.—The salesmen may receive bonuses for selling high-profit lines, for selling slow-moving goods, for securing new customers, for giving service to the customers, for work in putting out advertising matter, for arranging dealer displays, for increasing sales, or for their general value to the house as judged by the company's executives. Bonuses for selling slow-moving goods in retail stores are called "PM's" and "spiffs." A certain portion of the company's profits may be set aside at the end of the year for division among the salesmen. This is called "profit sharing."

Organization.—A small company may use a home office organization and direct all of its salesmen from the home office. A large company covering a large territory will be likely to have branch sales offices located in

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[1] Many employers use a lower rate. Thus, if the jobber used a rate of 2 per cent in determining basic salaries, he might offer 1½ per cent commission on all sales over the quota; in the above example, then, the salesman would receive $750 commission in the year that he sold $150,000. The employer feels that this is enough to stimulate the men. On the other hand, some employers may want to give their men a stronger incentive to increase sales, and so pay a higher rate of commission. Thus, the above jobber might pay 2½ per cent commission on sales from $100,000 to $150,000, 3 per cent on sales from $150,000 to $200,000, and 3½ per cent on all sales over $200,000.

various cities. These offices are in the charge of branch sales managers, who supervise the salesmen in their territories.

A company with one product or a line of similar products will probably have only one sales organization if it sells to only one type of buyers. If, on the other hand, its customers include different types of buyers, it may have a separate sales force for each type. Thus a manufacturing company may have one sales force to sell the retail dealers, another to sell to wholesalers, another to sell to industrial buyers, and a fourth to sell institutions. If the company makes a variety of dissimilar products, several sales organizations may be needed.

Territories.—The sales manager should assign his men to territories to which they are suited. Thus a New Yorker is said to be poorly adapted to any territory distant from New York. Western men are said to be needed for far western territories, while southerners are best adapted to southern territories. If a territory includes a great many foreign-speaking buyers, a salesman familiar with the language is highly desirable.

The territories should not contain more prospects than the salesman is able to handle and yet should be large enough to keep him fully employed. Some territories have been divided along geographical lines, with the result that some salesmen have more prospects than they can handle, while others do not have enough prospects to keep them busy. The size of a territory should depend upon the number of potential customers and the transportation facilities, rather than upon the number of square miles of area or its population. Some companies assign certain lists of prospects to their salesmen, rather than give them territories with definite

geographical boundaries. Under this method the buyers are assigned to salesmen who are qualified to serve them and a salesman is not expected to call on many different types of buyers.

Chapter 31

Review Questions

1. What does the sales policy of a company include?

2. What is the work of the sales manager?

3. Why does the type of salesmen needed vary in different companies?

4. From what sources may a sales manager recruit his men?

5. How may the sales manager get in touch with men who want positions?

6. How do sales managers select men?

7. What can you say of the usefulness of the following methods used in selecting salesmen: interviews? application blanks? intelligence tests? trade tests? information furnished by references?

8. Name the different methods used in training salesmen.

9. Why do salesmen have to be supervised?

10. What methods may the sales manager use in supervising men?

11. How may sales research or analysis be used in supervising men?

12. How may salesmen be stimulated? Do salesmen need stimulating more than men in other positions?

13. What can you say of sales contests?

14. What are the advantages and disadvantages of paying salesmen straight salaries?

15. What is the principal advantage and the principal disadvantage of the straight commission method?

16. What do you think of the salary and commission method of paying salesmen?

17. Is it possible to use a salary-commission method of paying salesmen so as to avoid the disadvantages and secure the advantages of both the salary and commission methods?

18. What are bonuses? For what are they paid?

19. What is the difference between a home office and a branch office sales organization?

20. When does a company need two or more forces of salesmen?

21. How should the sales manager assign territories to his men?

22. What can you say of the policy of assigning each salesman a list of customers and prospects, rather than assigning him a definite geographical territory?

Thought Problems

1. The sales manager is often a very highly paid man. Why?

2. What qualifications does a man need to become a successful sales manager?

3. Would you say that the sales department was more or less important than the following: the production department? the advertising department? the finance department? the legal department?

4. What types of salesmen are needed to sell to the following: wholesale grocers? retail grocers? purchasing agents for large corporations? housewives on a house-to-house basis?

5. Do you believe that bonuses are really effective stimulants to salesmen?

6. Do men or women make the best salespeople in selling the following types of goods in retail stores: furniture? men's clothing? kitchen supplies? groceries? cheap jewelry? high-priced jewelry? women's coats? electrical merchandise? radios? musical instruments?

7. When a salary and commission method is used, should the rate of commission paid be the same as, or lower or higher than, the rate used in determining the basic salaries?

8. What kind of a sales organization does a company need that sells lubricating oils and greases to retail filling stations, to wholesalers, to factories for the lubrication of their machinery, to railroads and public utilities, and to the operators of large fleets of motor trucks?

What types of salesmen are needed? What training or education do they need?

9. Salesman Smith receives a salary of $4,800 a year, plus a bonus of 2 per cent on all sales over his quota of $200,000 a year. What does he earn if he sells $150,000? $250,000? $400,000?

The next year his quota is set at $260,000, but his salary is unchanged. What does he earn if he sells $230,000? $275,000? $350,000?

Chapter 32

Advertising Principles and Policies

Three methods of stimulating sales.—The three principal methods of stimulating sales are personal salesmanship, the display of the goods, and advertising. All three methods are frequently used by the same seller. The retail store, for example, sells through salespeople, displays its goods on its counters and in its windows, and advertises in the newspapers and in various other ways.

Why advertise?—The seller may advertise because he can get his message to the buyers more cheaply and more quickly by advertising than by salesmen. It takes time to build a sales organization: salesmen must be hired and trained. A salesman can talk to only a limited number of buyers each day. An advertising campaign, on the other hand, may cover a city, a state, or even the nation within a few days. Advertisements in newspapers and magazines are before the buyers as soon as the periodicals are distributed. It is doubtful if a new product could be distributed quickly over a large territory without advertising.

Advertising goes where salesmen cannot go. Advertisements enter our homes in the newspapers and magazines and are with us at all hours. Billboards and electric signs confront us at every turn. Radio advertising is with us in much of our entertainment. Advertising can make more frequent calls than the salesmen. For example, when a salesman makes a call, if he does not se-

cure an order within a reasonable time, he must go on to another prospect. But the advertisements are repeated over and over again and are with us at all times. They may attract our attention and secure our interest and perhaps our desire "when we are off our guard," so to speak.

Limitations.—Advertising has many limitations. It lacks personal appeal. It is easily ignored. The advertisement cannot answer questions or objections. Perhaps the reader is not fully convinced by the advertisement—he may be skeptical about some of the statements or may not fully understand the product. The advertisement gives its message and quits. A salesman, on the other hand, can give additional information, can answer questions, can offer proof of his statements, can demonstrate the product, and can answer the prospect's objections. The advertisement is weak on closing the sale. For this reason, advertising is often used to do the preliminary work in selling—in attracting attention and arousing interest—while salesmen are used in closing the sales or in actually getting the orders.

What advertising does.—Advertising may win acceptance for a product. When the buyer is offered an advertised product, the name is familiar to him. He often remembers seeing it advertised, and, other things being equal, he will usually choose it rather than a non-advertised product.

Advertising may induce the buyer to ask for the product by name. The salesman, however, may not have the advertised product or may feel that some other product is better. He therefore recommends a substitute. If the buyer has more confidence in the salesman than in the advertising, he usually buys the substitute.

Advertising may be so convincing that the buyer not

only asks for the product by name but insists on having it and refuses to buy a substitute. If one seller does not have it, he goes to another store or waits for another salesman to call. Advertisers would like to win the insistence of the buyers for their products. As a matter of fact, however, all that successful advertising usually does is to secure acceptance for the products.

In selling by mail, advertising replaces the salesmen and induces people to buy; it completes the sale. However, advertising usually supplements the work of salesmen; it precedes them and builds interest before they meet the buyers.

Cost of advertising.—Advertising is estimated to cost a little less than two billions of dollars annually. This includes the various kinds of advertising, such as that done in newspapers, in magazines, on billboards and other outdoor signs, by direct-mail matter, by radio, by dealer helps, by want ads, by catalogs, and by novelties. The total volume of goods sold annually at retail was over 50 billion dollars in 1929, was approximately 30 billion dollars in 1933, and is perhaps 40 billion dollars at this writing. Advertising is done to sell both goods and services. A considerable sum is spent to promote the sale of insurance, investments, amusements, travel, hotel rooms, and many different forms of personal services not included in the figure for retail sales. We may therefore estimate, in a general way, that advertising takes approximately three cents out of each dollar the consumer spends for goods and services.

Is advertising worth its cost?—Is advertising worth its cost to the consumers? It is argued by some that the money spent for advertising is largely wasted in so far as the consumers are concerned; that it is spent in the competition of rival sellers for business; and that each

seller advertises in an attempt to increase his sales at the expense of other sellers. We may admit at once that there is much waste in advertising, but so is there in all forms of human activity.

It is also argued that much advertising is exaggerated or dishonest and makes sales by deceiving the public. We must admit that there is such advertising. On the other hand, advertising men have taken the lead in promoting "truth in advertising" and improving business ethics. After making allowances for boasting or "puffing," the great part of advertising today is reasonably honest. Advertising is more truthful than personal salesmanship.

Advertising has many advantages. It has an educational value: it teaches us much about new products, sanitation, health, and foods, and it introduces luxuries. It makes us want things, and we work harder to get them. By such work the human race has won much of its increased standard of living during the past century. Advertising also makes possible many of our newspapers and magazines which would not be published except for the revenue from advertising.

Advertising is said to be cheaper than personal salesmanship. The results obtained by the 3 per cent spent for advertising might cost more if secured by personal salesmen. Many advertisements can be distributed for the cost of having a salesman make one call. Advertising saves the time of the salesmen, as they can usually sell an advertised product in much less time than a non-advertised product. The buyers have more confidence in the advertised product, and the salesman spends less time in explaining its merits and giving assurances of its quality.

Many advertising men argue that advertising increases

sales and so allows the manufacturer to produce in larger quantities and hence at a lower cost per unit. They argue that a part of this saving is passed on to the consumer who can get the goods more cheaply than he could if they were not advertised. The theory back of this argument is known as the law of decreasing costs. This is an important economic law, but its importance is greatly exaggerated. Nevertheless, there are some instances in which advertising has helped to reduce the prices to the consumers.

The advertising policy.—Advertising is a part of the general plan of distribution. It is not a thing apart, but an integral part of the concern's business policies. The correct advertising policy depends largely upon the method of distribution, the product, the territory covered, and the size and financial strength of the seller.

The seller must first determine whether or not he will advertise. If he determines to advertise, he must determine what he will advertise, how much he will spend for advertising, when and where he will advertise, the kind of advertising to be used, and whether or not he will use an advertising agency. He must also decide what use he will make of publicity.

Deciding whether or not to advertise.—Not all businesses advertise. Some have become large and successful with little or no advertising, while others have been built largely by advertising.

Method of distribution.—The method of distribution employed will have much to do with whether or not a concern advertises. If a concern sells its goods under the private labels of distributors (e.g., wholesalers or chain stores), it will probably do little or no advertising; it is usually unknown to the consumers. Some concerns distributing their products direct to the consumers

by salesmen do little or no advertising. On the other hand, a concern may well advertise if it identifies its product and has it sold to the general public.

Some manufacturers have depended very largely on advertising to develop consumer demand and have made relatively little use of salesmen. If the consumers demand the product at the retail stores, the retailers will stock it, and sales become almost automatic. The company needs few salesmen and may use brokers to sell the wholesalers who supply the retailers.

Product.—The advertising policy depends to a considerable extent upon the product. The product must be branded or identified in some other way if it is to be advertised, unless the advertiser sells it direct to the user. There must be some feature or "talking point" about the product if the advertising is to be successful.

Manufacturers of raw materials have often felt that it was useless to advertise. Other producers had products of equal quality, and they felt that the business went to the producer with the lowest price or the best service. More and more producers of raw materials, however, are coming to advertise. Some are identifying their products so that they can secure the credit for high quality. Others have come to realize that the demand for their products is elastic, and they are advertising the product to expand its consumption. Thus we see advertisements of various kinds of wood, wrought iron, nickel, and sheet steel. These products compete with other products and may have their use increased by showing their advantages.

In order to secure something to advertise, producers often develop specialties—products that are different from other products. Thus a manufacturing company made screw-nails, a steel manufacturer developed a rust-

resisting iron, a can company developed flake coffee, a metal furniture manufacturer produced steel shelving that would fit together without bolts, while a glass company introduced windows with two panes sealed together with dehydrated air to stop heat losses.

Territory.—The company selling in a very limited territory may feel that it can reach the buyers to better advantage with salesmen than with advertising. Such companies, however, often advertise in local newspapers, or with direct-mail matter.

Financial strength.—Small companies, or new companies started with limited capital, cannot afford large advertising campaigns; some of them feel that for this reason it is useless to advertise at all. This may be the wrong attitude. Many of the outstanding businesses of the country began advertising in a very small way, some when they could spare only a few dollars. Many firms attribute their growth largely to their advertising begun on a very small scale. The small concern can usually find some advertising method adapted to its needs—a trade paper, local newspaper, a farm paper, direct-mail matter, or a novelty.

What to advertise.—The first essential for successful advertising is to have something to advertise. Advertising without a definite article or service to offer is wasted effort. We may advertise a new article, an improved article, a superior article, an attractive price, a definite service, or the reliability or dependability of the article or the seller. The buyer must have some interest in the product or service—it must meet one of his needs or desires.

If the seller has several things for sale, he must decide which product or service he will advertise and what appeal he will feature. What can he advertise to best

advantage? What will make the best appeal to the buyers? What service does the product render to the buyer? How does it serve his needs?

How much to spend.—Some successful businesses have been built up on the policy of spending all that they could afford on advertising. This may be a good policy for a growing concern with a big market to develop. When a company becomes large, or when the market is covered, some other policy is usually adopted. The most widely used methods of determining the advertising appropriation are to base it on past or expected sales, or to base it on the task to be done—results expected from the advertising.

Sales.—Some companies set aside a certain percentage of the past year's sales to be spent for advertising during the coming year. A shorter period, as a half-year or a quarter, may also be used. This is a very definite method. It affords the easiest way of determining the advertising appropriation. If sales vary from year to year, this method, however, will cause different amounts to be spent for advertising in different years. If the company has a poor year and its sales are low, the amount of advertising done during the following year will be reduced; and this reduction may be poor policy, for perhaps the following year will be a year when business is improving and the amount of advertising should be increased.

A somewhat better method is to set aside for advertising a certain percentage of the expected sales during the coming year. This method will tend to keep the percentage cost of advertising uniform. It will mean that more is spent for advertising when business is good than when business is poor. Some argue that the best time to advertise is when people are in a buying mood. If

this be true, then advertising may well be based on estimates of future sales—provided such estimates can be made with reasonable accuracy.

The task to be done.—Some argue that the amount of advertising done should vary with the job the advertising is expected to do. If new territories are to be opened or new products are to be placed on the market, then more must be spent on advertising. If business is poor and yet the company wants to keep up its volume of sales, it may spend more for advertising, as there is more sales resistance. If, on the other hand, the product is established on the market and no expansion of sales is planned, the advertising appropriation may be kept stationary or it may be reduced. In many ways this appears to be the most sensible and logical way of deciding how much to spend for advertising. It must, however, be modified at times to meet the financial ability of the company.

When to advertise.—Some advertising men say that the answer to this question is "all the time." The public soon forgets. The seller who stops advertising often finds that the buyers soon forget his product and buy others that are being advertised. Continued, steady advertising produces results. The amount of advertising, however, should often vary from one time to another.

Seasonal products can best be advertised in their selling seasons. When they are advertised out of season, some special inducement, such as low price, is usually necessary to induce the consumers to buy. One company selling an anti-freeze preparation for automobiles arranged to place its advertising in the various cities when cold waves were predicted by the weather bureaus.

When a new product is being placed on the market or

when new markets are being developed, more advertising is needed than when the product is established on the market. It is much harder to get a product on the market than to keep it there.

A schedule should be prepared showing when the advertisements are to appear. The time for each advertisement may be definitely fixed or the schedule may be somewhat flexible to allow for seasonal developments or changes in the weather.

Advertising and the business cycle.—Should advertising be increased when business is dull in order to keep up sales? Or is it best to increase advertising when business is good and people are in a buying mood? Advertising men differ on this question. Some argue that advertising can increase sales, and therefore more advertising should be done in periods of depression than in periods of prosperity in order to keep up sales volume. The majority, however, seem to feel that the best results are obtained in good times, when people are in a buying mood—that it is easier to "swim with the current" than against it. Advertising apparently produces the best results when goods are in demand, when people want to buy.

Whether a company curtails or increases its advertising in periods of depression depends somewhat on the philosophy of the manager. One man says: "Business is going to be poor; I had best economize and prevent failure." Another says: "Business is poor, but I do not want to go backward. Therefore I will put forth more sales effort in order to keep up my sales." Increased advertising is often a part of the latter program, the success of which depends in part on the nature of the products sold and in part upon the enthusiasm and energy with

which the program is carried out. This policy may be helped by the fact that competitors reduce the amount of their advertising.

Where to advertise.—Advertising should be concentrated in the territory in which the product is to be sold or among the customers to whom the product appeals. Mediums should be selected that cover the desired territory or that are read by the class of people who are logical prospects. Market research often shows that sellers try to cover too much territory—that in some places sales are so scattered that they are unprofitable. Advertising should not be done in such territories, unless, of course, the seller is definitely planning to develop such territories into profitable markets.

Selecting the proper method.—The proper method involves the selection of good mediums, good copy, and alluring appeals. The selection of these will be discussed in the following chapters.

The advertising agency.—The advertising agency is a functional middleman which helps advertisers with their problems. It advises its clients as to the amount and kind of advertising they should do; it often conducts market research and prepares complete advertising plans for them; it prepares their copy, secures the necessary pictures, and has the plates made; it recommends or selects the mediums that should be used; and it buys the space and sees that the advertisements are published.

The agency was formerly a space broker for the papers, and is still paid a commission (usually 15 per cent) by most of the magazines and newspapers on national advertising. For advertisements in general mediums, the advertiser must pay the same rate whether or not he uses the agency's service. Therefore many advertisers turn over much of the work to the agency, and they

themselves only formulate the general policy and pass on the campaigns and copy prepared by the agency.

Agencies may also be employed to handle direct-mail advertising or to perform extra services which are not covered by the commission paid by the papers and for which the advertiser pays the agency.

The agency maintains a staff of specialists and is much better equipped to prepare good advertisements than is the average small seller who does not maintain a complete advertising department. Some companies, however, prefer to make their own plans and prepare their own copy. They feel that the agency does not fully understand their problems and their products. This is especially true of technical products, for which reason the publishers of some technical papers do not allow agency commissions.

Planning.—The advertiser often plans his advertising several months in advance. Often the amount to be spent for advertising is determined for a six-months period. This amount is divided by months, and the amount to be spent each month is determined. Each month's appropriation is then divided between departments or products; each month's appropriation is also divided between newspaper, direct-mail, radio, car card, trade paper, magazine, billboard, and other kinds of advertising. (These various kinds of advertising are explained in the next chapter.) Thus the amount to be spent in advertising in each department of the business, each month, and in each kind of medium is planned several months in advance. The advertiser may also select the individual periodicals to be used and the amount of space to be used in each.

Although the advertising plans are worked out months in advance, they should be sufficiently flexible that they

can be changed quickly to meet changes in demand. In a retail store, the specific merchandise to be advertised may be selected only a few days in advance. This is often desirable because the popularity of different items cannot always be accurately anticipated and the store may want to push the sale of popular goods or to move overstocks.

Chapter 32

Review Questions

1. What are the three principal methods of stimulating sales?

2. Why do sellers advertise?

3. What are the limitations on advertising?

4. What advantages does a salesman have over advertisements?

5. How may advertising influence the buyers?

6. What is the total annual cost of advertising in the United States?

7. What are the principal advantages of advertising?

8. What are the principal objections to advertising?

9. Is advertising worth its cost to the consumers?

10. How does a concern's method of distribution affect its advertising policy?

11. How does the product influence the advertising policy?

12. How does the territory covered by the seller influence his advertising methods?

13. How do sellers determine how much to spend for advertising?

14. What is meant by basing the advertising appropriation on the task to be done?

15. What do you think of basing the appropriation on the sales of the past year? On the estimated sales for the coming year?

16. Which should be advertised more extensively, a new product or one with an established market? Why?

17. Where should advertising be done?

18. What is the relation of advertising to the business cycle?

19. What is the advertising agency? What does it do? How is it paid?

20. How should an advertiser plan his advertising? What is an advertising schedule?

Thought Problems

1. What is advertising? Should we speak of radio "advertising" or radio "salesmanship"?

2. What is meant by the law of decreasing costs?

3. Sometimes we hear people say: "That's advertised stuff. It's no good." Do you agree?

4. Dealers sometimes tell their customers that a non-advertised product is a better value than an advertised product, because no money has been spent for advertising it. Comment on this statement.

5. What is the proper advertising policy in a period of depression?

6. Should a small concern advertise?

CHAPTER 33

Advertising Objectives, Mediums, and Appeals

Kinds of advertising.—Advertising may be classified as to the purpose for which it is done, as to the mediums used, and as to the appeals employed.

Purpose.—With respect to purpose, the three major kinds of advertising are institutional, product, and price.

Institutional advertising is that advertising which attempts to keep the name of a company or brand before the public and build goodwill for its goods or services. Institutional advertising is often used by manufacturers, retail stores, banks, and public utilities.

Product advertising is done to promote the sale of particular products. It features some article such as an automobile, an electric fan, or a brand of coffee.

Price advertising is that advertising which attempts to secure business on the basis of price. It is used by many different kinds of businesses; among the larger users are department, chain, and other kinds of retail stores.

Methods of increasing sales.—Advertising may have a number of specific purposes. Its fundamental purpose usually is to increase sales, but it may attempt to do this in a variety of ways. It may try to increase the use of a product by lengthening the season in which the product is used; thus Coca-Cola is advertised as a cold weather drink, and ice cream is advertised as a year

around food. It may be done to secure new uses for the product; thus yeast is advertised as a health food as well as for making bread, and fans are advertised for ventilating and heating as well as for cooling. Advertising may be used to meet price cutting, to stabilize prices, to increase the size of the sale, to expose unfair practices, to prevent substitution, to reach markets too sparse to be profitably covered by salesmen, to widen markets, to develop new markets, or to put new products on the market. Advertising may attempt to influence human conduct, as to get people to pay their debts, go to church, drive carefully, obey the law, save money, contribute to charity, or vote for a given candidate.

Mediums.—Advertising is often classified according to the mediums used in reaching the prospective buyers. The principal mediums are newspapers; magazines; periodicals reaching special groups of readers, as technical, trade, farm, women's, and religious papers; direct-mail matter; outdoor advertising, such as billboards and electric signs; radio; novelties, such as rulers, blotters, and calendars; dealer helps, such as cards for display in the dealers' stores and windows; packages, as printed matter and pictures on the packages in which the goods are sold to the consumers; signs on delivery vehicles; and street car cards.

Newspapers.—If the seller desires to reach the general consumers in a given city or metropolitan area, the local newspapers appear to be the logical medium. Newspapers in various towns can also be used in covering a wider area, as a certain section of the country. Newspapers often have a lower rate per reader than do the magazines. They can be used to cover the territory desired and to some extent the type of people, as the different papers in a city are often read by different classes

of people. The advertisements in newspapers in different towns can be timed to agree with the local buying seasons or with the activities of the salesmen in these towns.

On the other hand, there are certain disadvantages to newspaper advertising. The newspaper is read hastily and thrown away. An advertisement is said to have less chance of being read in a newspaper than in a magazine which is kept longer and read more leisurely and by more people. In the past the grade of paper used by newspapers limited the kind of pictures that could be used. It has been very hard to bring out the beauty of products needing color or accuracy of detail in newspaper illustrations. This limitation is now partially overcome in the rotogravure sections and color pages used by many of the large papers.

General magazines.—Magazines of general circulation are most often used by advertisers of products used by the general public and sold over a large part of the country. Products not used by the general public but used by several different groups of buyers may at times be advertised in magazines of general circulation. For example, a product bought by contractors, carpenters, plumbers, and machine shops may be advertised in such magazines.

Specialized periodicals.—A product appealing only to certain groups of people is likely to be advertised in specialized publications. Thus, farm equipment is commonly advertised in farm papers, dairy equipment in dairy journals, railroad equipment in railroad magazines, canner's supplies in trade papers read by canners, and equipment for chemical industries in the chemical journals. Women's magazines are used by advertisers of products used largely in the home, and the business

papers are used by advertisers of office supplies and equipment. The specialized paper offers the best advertising medium to a great many advertisers the use of whose products is limited to certain industries or trades.

Direct-mail.—Direct-mail advertising is sent through the mail by the seller to prospects and is not published in periodicals. Direct-mail matter may consist of letters, circulars, pamphlets, booklets, folders, blotters, catalogs, or novelties. Direct-mail advertising can be used to advertise almost any goods or service. It is used to reach buyers of highly specialized products that cannot be economically reached in other ways, and it is also used to reach the general public. The manufacturer of a highly specialized machine has only a few possible users. He may feel that advertising even in the trade papers involves waste; therefore he reaches the users by means of salesmen and direct-mail advertising. Such advertising can be controlled and used to reach the exact group of people who are prospective customers. Direct-mail matter is also often used in the sale of ordinary types of consumer goods (this may be done in the belief that it is cheaper or gets better results than periodical advertising), or it may be used to supplement the work of salesmen.

If the mailing lists used in sending out direct-mail matter are compiled with enough care, the advertiser may reach only those people who are prospective buyers of his product. In this way he can control the appeals made to different groups. Further, his competitors do not know the extent of his advertising.

Direct-mail advertising can be used very successfully and profitably. However, it requires the constant attention of the advertiser—there are no publishers to see

that his advertisements are distributed. It requires work to prepare the copy and mailing lists; to have the material printed; to see that the matter is mailed at the proper times; and to check up on the results obtained from different mailing lists, pieces of copy, and types of paper and printing. The results obtained from direct-mail advertising can be checked much more closely than the results of other kinds of advertising. In fact, direct-mail advertising can be made almost an exact science.

The greatest objection to direct-mail advertising is that so much material is thrown away without being read that the cost of securing business in this way may be high.

Outdoor advertising.—Outdoor advertising on billboards, in electric signs, and on posters is very widely used. The consumer may refuse to read the advertisements in the papers, but some of the outdoor signs confront him at every turn so conspicuously that he cannot help but see them. As people usually merely glance at outdoor signs, their messages should be brief. Often they consist largely of the name of a product or company, or of a picture with the name of the product. Pictures are very good to visualize the product quickly to the passers-by. As outdoor advertising is seen by all classes of people, it is generally used for products of general consumption, such as chewing gum, automobiles, gasoline, food, and amusements. It may be used by both local and national advertisers.

There has been considerable agitation against outdoor advertising on the ground that it spoils the natural beauty of the country and that it increases the danger of driving by obstructing the view of the drivers. Outdoor advertisers, themselves, have gone on record as opposing the placing of advertisements at natural beauty

spots or where they interfere with views of beautiful landscapes, or where they increase the danger of driving. Nevertheless, many outdoor signs are badly placed when the beauty of our highways is considered.

Radio.—The radio has come to be a very important "advertising" medium, costing many millions of dollars annually. Radio advertising, or salesmanship, has many problems. What types of programs are best suited to different products? What is the value of the different hours? How much advertising will the listeners permit? Is it best to simply announce the name of the advertiser as the sponsor of the program, or can a considerable amount of advertising be interspersed with the entertainment? Only a limited number of broadcasting stations can be permitted on the air and each has only a limited amount of time available for advertising.

Radio advertising appears to be especially adapted to sellers of products with national distribution that are used by the general public. It does not appear to be adapted to technical products with limited markets. It can, however, be used by local advertisers where local stations are available.

Novelties.—Advertising novelties, such as paperweights, letter openers, watch fobs, caps, blotters, yardsticks, recipe books, calendars, almanacs, and thermometers, are widely used. The object is to place the advertising message on something of value that will be kept for a considerable time by the prospects. The calendar, for example, is kept for a year and is looked at frequently. Cheaper novelties are generally used for distribution to the general public, while the more expensive articles go to large buyers—purchasing agents and others in a position to place large orders. Novelties

may be used by local advertisers, such as retail stores, or as parts of national advertising campaigns.

Dealer helps.—Dealer helps consist of cards, posters, display racks, and other matter for display in the stores and windows of the retail merchants. The chief advantage of dealer helps is that they advertise the goods at the place where they are sold to the consumers.

Dealer helps vary greatly in cost from those of moderate cost to very expensive ones. If used by the retailers, they stimulate sale of the manufacturer's products. The greatest difficulty is in getting the dealers to use them. Dealer helps are most often used by small neighborhood stores in the cities and by the stores in the small towns and villages. Many cards received by mail are thrown away without being used and many cards put up by salesmen are taken down soon after they leave.

In attempting to have their material used, some sellers have their salesmen emphasize its importance; others make a small charge for it. The price does not usually cover its cost, but a dealer will ordinarily use what he buys. Some manufacturers have emphasized the dealer's goods in the cards and placed their own goods in the background in order to induce the retailers to use the material in their windows.

Packages and delivery vehicles.—Valuable advertising is obtained by the labels on goods, on the packages in which goods are sold, and on the vehicles of the sellers. The color, design, size, and shape of the package serve to identifiy the product when next the buyer wants to purchase. New users are secured by the attractiveness of the package.

Delivery trucks and salesmen's cars are used where they are seen by many people and thus may supply a valuable advertising medium.

Car cards.—Cards in street cars and suburban trains are widely used in the larger cities to advertise products of general consumption.

Publicity.—Publicity is thought of by some as advertising that is not paid for directly. Many activities of business concerns have news value. The public is interested in new and improved products, and in industrial processes, methods, and machines. These may well find their way into the news columns. Some people think of publicity as underhanded attempts to get "inspired" articles or propaganda into our papers, schools, and organizations. The author has no intention of defending such tactics. There are, however, fair methods of securing legitimate publicity.

Many companies make a practice of showing visitors through their plants. This may be very excellent publicity, for the visitors usually go away with favorable impressions of the products and the producer. Other companies have liberal policies in giving the press facts about their business and their products. Some companies have their technical men write articles for technical or business papers and deliver talks before schools and conventions; others prepare films (which are loaned free for educational meetings) showing the processes in their plants. The company with an open policy in regard to giving out news may secure much valuable publicity for itself and its product.

Selection of proper mediums.—Conditions and products vary, but advertising methods can be found that are adapted to practically all situations.

The neighborhood store.—A neighborhood store in a city cannot afford to advertise in the city papers. Most of the readers live too far away from the store to be prospective customers. To advertise in the papers would

mean paying for a large waste circulation. The store may, however, compile a mailing list of the people in its neighborhood and use direct-mail advertising. It may use handbills or novelties. It may use such outdoor advertising as electric signs, posters, or billboards on or near its store. At times neighborhood papers are available. Coöperative advertising often enables the neighborhood stores to advertise economically in the city newspaper. One neighborhood store cannot afford space in the city paper, but if 50 or 100 stores[1] located in various parts of the city advertise together, the cost to each is relatively small. It is, of course, necessary for all of the merchants to carry the advertised goods at the advertised prices, which usually involves some agreement on buying. This form of coöperative advertising has had its largest growth among the "coöperative chains" in the grocery field.

The village store.—The local village merchant is often without a suitable newspaper covering his territory. He may use direct-mail matter and outdoor posters. A method that is at times very successful is for the merchant to issue periodically (perhaps weekly or monthly) a paper, or house organ, which he mails to the people in his trade territory. This paper may contain advertisements of his goods, personal news items concerning his customers, jokes, and other reading matter. Direct-mail matter may include folders, circulars, booklets, catalogs, and personal letters. The merchant may send picture postcards to all the children in the neighborhood when he is away on a trip. These postcards contain no advertising and are purely goodwill builders. One merchant writes personal letters to his customers at every

[1] The number of stores necessary will of course vary with the size of the city.

opportunity. Letters of congratulation go out when the boys and girls graduate from high school, when young folks get married, when babies are born. Letters of sympathy go out when deaths occur. Personal sales letters are used more or less continuously. Purchases of clothing are solicited from the high school seniors shortly before graduation. The merchant keeps a list of his customers' purchases. He knows just about when Jones needs a new overcoat or a new suit of clothes. If Jones fails to come in, a sales letter is sent to him.

The appeal.—To be successful an advertisement must appeal to the buyer. It must interest him and show him why he should buy the product or service. Better quality, lower price, better service, longer life, greater safety, easier operation, a distinctive feature, or an improved method of operation may furnish an appeal.

Buying motives.—The appeal must suit the buyer. Advertisements should be written from the buyer's point of view. The buyer's interest in the advertiser is due solely to the fact that the advertiser has something which he wants. The fact that the advertiser has something he wants to sell is of no interest to the buyer. The fact that the advertiser needs money interests the buyer only because he is making a concession in price. It is just as important for the advertiser as for the salesman to talk from the buyer's point of view. The advertiser should prepare his advertising to appeal to definite buying motives. The fundamental buying motives were listed in Chapter 27.

Ordinarily it is better to make only one appeal in one advertisement, or to devote most of the space to one appeal and to mention the others more or less incidentally.

Positive appeal.—A positive appeal is usually better than a negative appeal. We like the pleasant better than the unpleasant. For example, an advertisement showing a woman dressed in her good clothes and reading a book while operating a washing machine produced much better results than the advertisement showing a poorly dressed and tired woman toiling over a hot washtub. The suggestion of the hot washtub was unpleasant. The woman wanted the leisure. The husband wanted to see his wife freed from the drudgery.

Fear.—It has been said many times that the advertiser should not appeal to fear. Nevertheless the fear appeal is used in advertising many such products as insurance, safes, tire chains, watchmen's clocks, burglar alarms, and so forth.

Buying motives illustrated.—We may buy oranges because we like them or because we think they are healthful—contain valuable vitamins, mineral salts, or acids. The appeal may be directed to any or all of these motives.

The seller of correspondence courses of instruction asserts that his courses enable the students to secure better positions and increase their incomes. This is an appeal to gain or profit. Other motives are also used. The advertisement may show how the increased income enables the student to give his wife or children more comforts and luxuries, and so appeal to his affection. The advertisement may appeal to the student's pride by showing how the course of study enables him to secure promotion before the eyes of his present associates.

A manufacturer of oil heaters may show a picture of a small, well-dressed woman with a large scoop in her hands shoveling black, dirty coal into a furnace. The caption may read: "Does your wife have to do this?"

This appeal is aimed at the husband's affection. If the manufacturer tells how his furnace needs no attention, he may be appealing to the man's desire for leisure. If he tells how the thermostatic control gives an even heat at all times, he appeals to the desire for comfort and health. If he tells how the oil heat is cleaner than coal, he appeals to both affection and gain (economy). The wife is saved from much drudgery in cleaning, and the cost of cleaning, repainting, and repapering is reduced. If he tells how the furnace removes coal and gives a clean basement, he may appeal to pride, affection, or economy. The picture may show the proud owner showing guests his clean basement, or the lovely playroom for the children that can be placed in the basement. Such positive appeals may be better than the negative appeal involved in the idea of a dirty basement.

Home ventilating fans were formerly advertised to get fresh air into houses or to keep them cool. Then one seller got the idea of advertising that they remove the odors from the kitchen. Here was a new appeal and one that was very effective with people who liked fish, corned beef and cabbage, onions, sauerkraut, or other foods with strong odors.

The seller of mechanical refrigerators may advertise lower temperatures and better protection of foods. He may advertise that there is no iceman to make dirty tracks on the kitchen floor. He may show the inconvenience of being away when the iceman calls and so having no ice in the refrigerator. He may advertise controlled temperatures which do not vary with the outside temperatures and the amount of ice in the refrigerator. Again, he may show the cleanliness and beauty of his product, and he may appeal to pride by showing the admiration of visitors.

Chapter 33

Review Questions

1. What are the major purposes of advertising?

2. For what specific purposes may advertising be done?

3. What are the principal advertising mediums?

4. When should the advertiser use newspapers?

5. What are the principal advantages and disadvantages of newspapers as advertising mediums?

6. What types of products should be advertised in general magazines?

7. Why are specialized periodicals used? Name various kinds of specialized periodicals.

8. What is meant by direct-mail advertising?

9. What are the advantages of direct-mail advertising?

10. What type of products can be advertised direct by mail?

11. What are the disadvantages or limitations on direct-mail advertising?

12. What is meant by outdoor advertising? What are its advantages from the advertiser's viewpoint?

13. What types of products can be successfully advertised out of doors?

14. What can you say of radio "advertising"?

15. What are advertising novelties? Why are they used?

16. What is meant by dealer helps? Why are they used?

17. What problems arise in the use of dealer helps?

18. What can you say of the value of packages for advertising purposes?

19. Do you believe that advertising on delivery vehicles is valuable?

20. What can you say of car cards as an advertising me-

dium? What type of products can be advertised on car cards?

21. What is publicity? How is it obtained?

22. How can a neighborhood store in a city advertise at a reasonable cost?

23. How may a merchant in a small village advertise if he does not have a newspaper covering his trade area?

24. What is meant by the appeal in advertising?

25. What is meant by a positive appeal? Is it better than a negative appeal? Why or why not?

26. Does fear make a good appeal? Why?

27. What should the advertiser do when his product has several appeals?

28. What appeals may be used in advertising ventilating fans? oranges? oil heaters? electric refrigerators?

Thought Problems

1. Many people say that the billboards should be abolished to enhance the scenic beauty of the country. How about it?

2. Do you think that novelties make a good advertising medium? Why or why not?

3. What types of radio programs are most popular? What percentage of the time in radio programs should be devoted to advertising and how much to entertainment?

4. It is said that direct-mail advertising is scientific, or can be made so. What is meant by this statement? Do you agree?

5. Can successful advertisements be based on fear? Select "fear" advertisements from current periodicals and tell which you think are good and which you think are bad.

6. Make a list of the chief buying motives and select two advertisements from current periodicals that appeal to each motive. (Paste each advertisement on a sheet of paper and write the appeal below and hand in.)

7. What appeals would you use in advertising the follow-

ing products: metal furniture for the home? pre-fabricated houses? pancake flour? railroad passenger service? bonds? garden seeds? ice cream? milk? computing machines? farm implements?

8. Select advertisements illustrating institutional, product, and price advertising. (Paste on paper and hand in as suggested in Problem 6 above.)

CHAPTER 34

Preparing Advertisements

Attention.—The first problem in preparing advertising is to get the advertisement read, so that the message gets to the readers. Attention may be secured by Size, Position, Layout, Illustration, Headline, Color, Copy, and Shape.

Size.—A large advertisement will attract more attention than a small advertisement. It is said, however, that the attention value of an advertisement does not increase in proportion to its size. Thus a half page ad will be read by more people than a quarter page ad, but it will not be read by twice as many people.

The advertiser fixes the amount to be spent in a given paper during a certain period. He may decide to use a few large ads or several smaller ads. On a given day, he may use one large or several small advertisements. In the past many department stores have used full page ads. A store may, however, use several small ads to feature different articles rather than one large ad. The one large advertisement economizes on space in that only one signature (name) is needed, and hence a larger percentage of the space can be used for illustrations and description of the goods. Readers attracted by one article may have their attention called to others. On the other hand, the small advertisements appear on different pages and in different positions and, taken all together, may be read by more people than the one large advertisement.

The size of the advertisement is often influenced by the kind or number of articles to be advertised and the appeal to be made. If a large picture or a piece of long copy is needed, the ad will probably be larger than if only a small picture or a short message is needed. In many instances, however, the size is first determined, and then the copy is prepared to fit the space. The size of the type may be varied to get the message into the space available. The advertiser must often choose between having his copy set in small type and shortening his message so that larger type can be used. The number of people reading the advertisement increases with the size of the type used.

The majority of newspapers have a column 2 inches wide. Many papers have a page 8 columns wide and 21 inches long. The size of page varies somewhat between papers, but a full type page of 16½ x 21 inches is common. The extra half inch in width comes from the width of the seven rules (lines) separating the columns. A half page ad is thus 16½ x 10½ inches, or 8¼ x 21 inches. The latter may be referred to as a four column ad. A quarter page ad is ordinarily 8¼ x 10½ inches.

Shape.—The correct shape for an advertisement has been said to be a rectangle with a proportion of 5 to 8. Thus an ad 2 columns wide (4 inches) should be approximately 6½ inches long. This shape has been said to be best adapted to the human eye. Letterheads, books, and many magazines have pages of about this proportion. The ordinary newspaper page varies slightly from this shape, as it is a little too wide for its length. It is often desirable to use ads that do not have the 5 to 8 ratio because of the shape of the illustration needed or to gain in attention value. If an advertisement is to

illustrate clothing on the human figure, a longer and narrower ad may be desirable. On the other hand, if an illustration of a railway train or landscape is to be used, a wider and shorter advertisement may be preferred. A long, narrow ad, perhaps one column long and one column wide (2 x 21), may have excellent attention value because, if placed alongside reading matter, it has much opportunity to attract the reader's attention.

Position.—In the case of a magazine, the front and back covers have the greatest attention value. The insides of the covers come next. Ordinarily the publisher charges more for advertisements in these positions than for those on inside pages.

The best position on a page is the upper left-hand corner, as we begin reading in that corner. The point of greatest eye value on a page is above and to the left of the center. The preferred position on a page is in the upper left-hand corner fully surrounded by reading matter. Many publishers refuse to sell this position, and others charge a higher rate for it. If this position is unobtainable, the advertiser likes a position at the right or bottom of the page with reading matter touching two sides of his ad. After this comes a position with reading matter on one side. The poorest position on a page is on the bottom or right-hand side, separated from reading matter by other advertisements. An exception to this may occur in the case of advertisements which are in the nature of announcements. A want ad offering household furniture for sale may best appear among other ads offering similar goods. People interested in buying second-hand furniture will be more likely to read the ad in this position than if placed elsewhere. The theater may want its ad among the other amusement ads, for a person interested in attending a

theater looks for the theater ads and is likely to overlook one appearing in another position.

The advertiser must ordinarily take his chance of receiving a good position or must pay a higher rate for a preferred position. Publishers do not like to promise preferred positions, as it complicates the "make-up" of their papers.

The advertiser likes his advertisements to appear on pages with popular reading matter or with matter that is likely to be read by the class of prospects to whom he appeals. A sporting goods store wants its ad on the sporting page, while the investment house wants its ad on the financial page.

The layout.—The layout man plans the advertisement just as the architect plans the building; he is largely responsible for its physical appearance. He is ordinarily furnished with the size of the ad, a list of the articles to be advertised, the prices, the appeal, and perhaps the illustrations and copy to be used. His first task is to divide the space between the illustrations, the headlines, and the copy.

He takes a piece of paper and rules it off the size and shape the ad is to be, and then divides the space between the illustrations, headlines, and copy. He plans the arrangements of the ad. He determines the size and position of the illustrations, the size of the type to be used in the headlines, the amount of white (blank) space, and the space and positions to be used for the copy. He often letters in the headlines, and blocks in the space to be used by illustrations and copy. He may paste copies of the cuts in their proper places. He thus gives the ad its first definite appearance.

The layout should call attention to the message and get the advertisement completely read. If it calls atten-

tion to the layout, it is bad.[1] The advertisement should not be too black, nor should it leave too much white space. Some layout men strive for balance. Balance is determined by the sizes of the various parts of the ad, their distance from the center, and their tone. Tone, for example, means that a smaller space filled with black faced type balances a larger space filled with light faced type. Some layout men emphasize eye direction—the reader's eye is directed from point to point in the ad in the order in which the advertiser wants his message read. The eye may be directed by the position of the illustrations, by the arrangement of the headlines and copy, or by lines or arrows.

Illustration.—Pictures are the universal language. They are often the most important part of an advertisement. A suitable picture gives the reader the idea at a glance. It requires very little mental effort to look at and understand the ordinary picture. On the other hand, it does require mental effort to read and understand copy. A picture makes an idea clearer than a long description. Even a well-written description may give the reader only a hazy idea of a machine, a building, or a new product, but a picture or diagram of the product gets the idea over much more quickly and accurately. The picture of the neat little woman shoveling dirty coal into a furnace got the idea over much better than it could have been done by words alone.

The use of pictures is limited by the fact that many products are so well known that their pictures no longer give information or attract interest; that the buying

[1] The author is indebted to Robert Martin, art director of R. H. Macy & Co., for some of his points of layout and illustration. See his article "Layout and Art," in "Retail Newspaper Advertising," published by *The New York Times.*

motives are hard to picture; and that it is hard to reproduce fine pictures in newspapers. Coal, lumber, potatoes, cornflakes, and bread are so familiar that their pictures attract little attention. They are used in advertisements perhaps as much for identification as for any other reason.

Securing illustrations.—Illustrations may be obtained from drawings or photographs. There are many kinds of drawings, adapted for different products and for making different kinds of cuts. For newspaper advertisements, the simple line drawing is best. From this a zinc etching is made. This prints well on the kind of paper and with the ink used by newspapers. The disadvantage of the line drawing is that it cannot show details; the fine texture of fabrics is entirely lost in such drawings. Photographs have many advantages. They show the details, and they are accurate and convincing —"The camera never lies." On the other hand, they involve expense for retouching and engraving and often do not show up well when reproduced in newspapers.

The advertiser may employ an artist to make drawings if no one on his staff is capable. He may take the photographs himself, employ a professional photographer, or purchase suitable photographs from companies that supply photographs for advertisements. These concerns may use professional actors to pose for the photographs. If an advertising agency is used, a part of its work is to secure the illustrations.

In practice, the individual advertisers often secure their cuts from the manufacturers of the products advertised, from companies in the business of supplying cuts, or from the newspapers who subscribe to mat services.

The headline.—The purpose of the headline is to catch the reader's eye, attract attention, and get the advertise-

ment read. One writer[2] says that the three best types of headlines are: first, those that appeal to the reader's self-interest—offer him something he wants; second, those that give him news; and third, those that arouse curiosity.

This headline appeals to the reader's self-interest:

ANOTHER $100 RAISE

This headline gives news:

NEW FEATURES ON THE BLANK CAR

These headlines arouse curiosity:

WHAT'S WRONG WITH THIS PICTURE?

THE TROUBLE WITH MANY MARRIED MEN IS. . . .

An insurance company tried these two headlines:

HERE'S ONE QUESTION YOU SHOULDN'T ASK YOUR WIFE:

YOU CAN LAUGH AT MONEY WORRIES IF YOU FOLLOW THIS SIMPLE PLAN

The second advertisement secured twice as many inquiries and sold four times as much life insurance as the first one. By merely reading the headline and name in the second advertisement, the reader learns that the Blank Life Insurance Co. has "a plan that will enable him to end money worries." Headlines that make an offer get a message over to those who read only the headlines.

[2] Caples, John R., in *Advertising and Selling,* June 25, 1930.

Color.—Color is of great value in attracting attention. Bright colors attract attention more readily than dull colors. The contrast of almost any color on the ordinary black and white page, however, attracts attention. Color is also of great help in illustrating many products, especially products with distinctive colors, such as oranges, roofing, textiles, garments, floor coverings, and automobiles. The attractiveness of many products is greatly enhanced by illustrating them in their real colors. Consider, for example, the illustration of a dress in black and of the same dress in its true colors. Colors may also be used to suggest the product sold. Thus red is used in advertising heating devices, green for cooling products, and yellow for gala occasions.

The principal limitations on the use of color in advertising are its added cost and the fact that it is not available in many newspapers. To secure the desired results often requires three or more colors and a high grade of paper. This means greatly increased costs. If possible, the advertiser should keep records of the results obtained from black and white and color advertisements, and determine whether or not the use of color is profitable. This is easily done by mail-order sellers and can be done in other forms of advertising by the use of "test" ads.

Copy.—Copy is that part of the advertisement involving the use of words. It includes the text or message and also, strictly speaking, the headline. Often the layout is made and then the copy is written to fit the space; for example, the layout man may say that a certain article must have a headline of 50 letters and a message of 100 words. The copy writer naturally objects that it is very hard to tell the story or describe an article in a definite number of words. It may be remarked, however, that the poet and the music composer must also

write to very definite specifications.[3] At other times the copy may be written first and the size of the ad and its layout adapted to the copy. This method allows the copy writer a freer hand in developing the theme or sales talk.

To write good copy, one needs to be familiar with the merchandise and with the attitude of the buyers. The buyers are interested in facts. The copy writer, therefore, needs to study the goods, to find out the pertinent facts about them, to find their talking points or appeals, and to put this information and the prices in the ad. In a large store, the main facts about the goods are sent to the advertising department by the sales departments. The copy writer, however, often needs to know more about the goods, and hence must study the merchandise sold by the store.

The copy writer needs to know the consumers, for the copy should be written from their point of view. The copy writer should study the consumers and associate with them as much as possible. He should be able to reflect the "spirit of the times." Most retail advertising is read by the women, and so the copy writer needs to understand the woman's point of view. For this reason women are often employed as copy writers. If the goods are bought by farmers, the copy should be written from their point of view. If the goods are bought by mechanics, the copy should be written for them.

Writing copy.—The same rules of grammar and rhetoric apply in writing advertising copy as apply in writing other material. The writer should have something to say and should then proceed to say it in a way that will

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[3] Swensen, Dorothy E., Advertising Manager of Abraham & Straus, Inc., in "Retail Newspaper Advertising," published by *The New York Times*.

interest his readers. The language should be simple, clear, and adapted to the readers for whom it is intended. Short sentences are usually best. Most of the sentences should be under 17 words in length. On the other hand, a large number of consecutive sentences less than ten words in length makes the copy monotonous, especially if the copy is long. The style must be adapted to the education and intelligence of the readers for whom it is intended.

Short and simple words are preferred. Hotchkiss says that words should be correct, should be correctly used, should be simple, should be exact, should be euphonious, should have the proper degree of dignity, and should have the right atmosphere. It is often impossible to secure a word that meets all of these requirements. One requirement may have to be sacrificed to get a word that meets the other requirements. Slang should be avoided, and yet a slang word may sometimes be used because it expresses the idea to a certain class of people. A French word may be used in advertising toilet preparations to secure the proper atmosphere, even though it is not a simple word nor generally understood.

A few examples.—The advertisement reproduced as Illustration A appeared in a magazine read by advertisers. The headline tells us that "Oakland Women Are Spenders." This means that Oakland would be a good place to advertise. The signature at the bottom of the ad stands out and tells the reader how he can reach these women. The ad makes a somewhat unique use of a border. One adverse criticism of the typography of the ad is the fact that the names of the towns where the representative has offices are so large that the name of the representative does not stand out as it would if smaller type had been used for the names of the towns.

OAKLAND WOMEN ARE SPENDERS

This does not mean that they are wastefully extravagant, but does mean that in department, dry goods and variety stores, they annually expend a sum exceeding $35,800,000, according to the United States Department of Commerce.

Of this large total, $32,000,000 is spent for purchases made in the department stores, while $3,700,000 goes to dry goods, general and variety stores.

Local merchants have found it profitable to concentrate their sales efforts in The TRIBUNE. National distributors find it good policy to follow their example.

Oakland Tribune

National Advertising Representatives:
WILLIAMS, LAWRENCE & CRESMER CO.
Los Angeles San Francisco New York
Chicago Seattle

Illustration A

Those interested sufficiently could be depended upon to read the address in smaller type. The three sentences average over 25 words; perhaps the class of readers justifies sentences of this length.

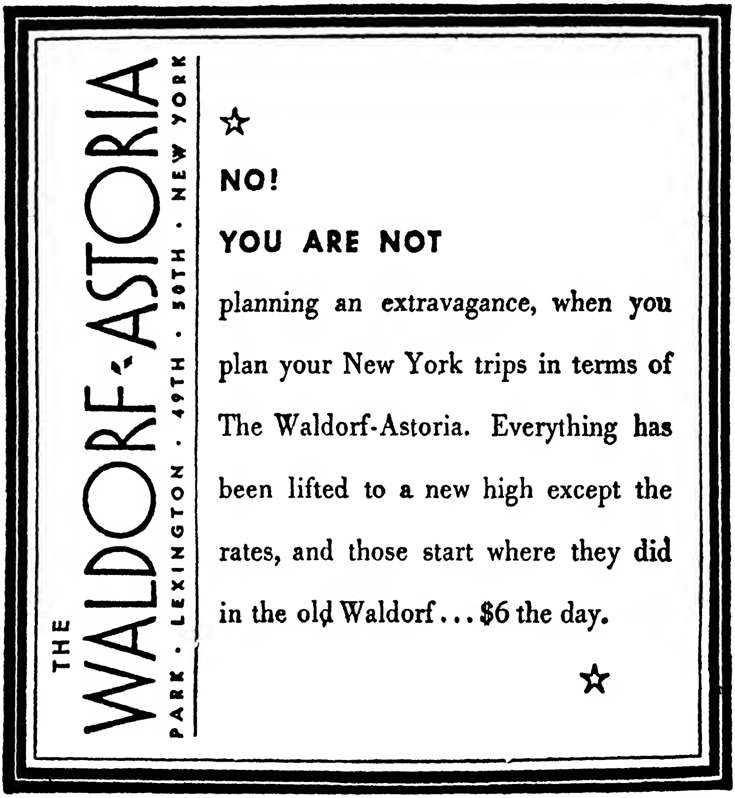

Illustration B

The advertisement reproduced as Illustration B is enclosed with a black border and has sufficient white space to attract attention. The heading appears perpendicularly on the page. This is done to attract attention by the novelty of the arrangement. Is this a desirable lay-

Quality, value, satisfaction . . . plus liberal accommodations

\$6.50 and \$7.50

BRUCEWOOD SHOES

reduced for stock adjustment to

\$4.95

It's very rarely we reduce our fine stocks of women's shoes, but when we do it means phenomenal savings. There's a vast selection in all styles and all sizes but not every style in every size—our own regular \$6.50 and \$7.50 shoes reduced to \$4.95

TOMORROW AT 8:45

Maurice L Rothschild

State at Jackson

Illustration C

out? Do the stars add anything to the advertisement?

The advertisement shown as Illustration C occupies 2 columns by approximately 8 inches. The large type tells us that reduced prices are offered on shoes at

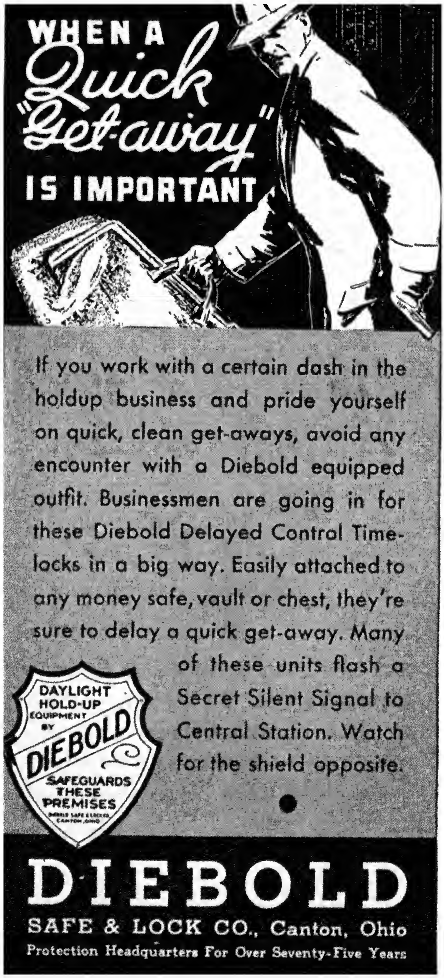

Illustration D

HEADQUARTERS FOR SUCCESS

Successful business men appreciate the need for modern comfort and convenience when they travel. And so, almost invariably, they stop at The Benjamin Franklin when in Philadelphia • For The Benjamin Franklin is Philadelphia's modern and convenient hotel. 1200 big comfortable rooms. Food that tempts the most travel-harassed appetite. Service that soothes travel-jarred nerves. Rates that fit every travel budget, as low as $3.50 a day •Try The Benjamin Franklin yourself the next time!

THE BENJAMIN FRANKLIN

SAMUEL EARLEY, *Managing Director*

PHILADELPHIA

Illustration E

Here you are, men! Here is a real drink!

It's India Tea! And please, don't confuse it with ordinary tea. It's different! Decidedly so! It's none of those weak, watery drinks. It's a beverage with "heft"... with full, rich flavor and satisfying strength.

India grows the finest tea in the world. India Tea, piping hot, is one of the world's finest drinks.

At luncheon, ask for India Tea...and to be sure you get the genuine, look for the Map of India trademark (above) on the tag on the teaball served to you. At home, ask the little manager to serve India Tea. Tell her (if she doesn't already know) to look for the Map of India on the label of every package of tea she buys. It certifies the genuine!

Illustration F

Maurice L. Rothschild's. This is a price advertisement. Do you feel that it is neat for a price advertisement? Is there plenty of white space? What do you think of the choice of words?

The advertisement reproduced as Illustration D appeared in a magazine which is read mainly by well-educated people. The unusual heading attracts attention. Curiosity as to who is making a quick get-away with a gun in his hand prompts us to read the copy. The advertisement uses a novel idea of selling safes by addressing the messages to robbers. The copy contains five sentences with a total of 75 words, or an average of 15 words each. The length varies from 27 words in the first sentence to 5 in the last. Is the first sentence too long? Note the choice of words and how the words in the first sentence blend with the headline.

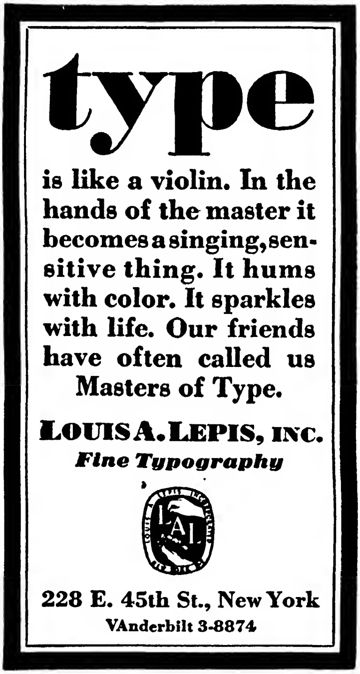

Illustration G

Illustration E shows another hotel advertisement. This is a single column ad from a popular magazine. It makes an appeal to success, implying that if you stop at this hotel you will associate with successful people and gain prestige. It uses some long words, but as it does not appeal to the ignorant and uneducated, this is probably not a disadvantage. What do you think

of the following phrases: "travel-harassed appetite" and "travel-jarred nerves"?

Illustration F is a single column advertisement presented for its copy. The trademark appears prominently so that the reader knows at once that the ad is about India tea. Next is a picture of a man. Women are supposed to be the principal tea drinkers. This ad is addressed to men for the purpose of inducing them to drink tea. Do you feel that the copy will secure action?

Illustration G is reproduced as an example of copy. The seven sentences average less than seven words each. What do you think of the choice of words?

Chapter 34

Review Questions

1. How may an ad secure attention?

2. What are the relative advantages of using one large ad as contrasted with using the same amount of space for several small ads?

3. What factors influence the size of an ad?

4. What has been said to be the correct shape for an ad? Why are ads of other shapes used?

5. What is meant by the position of an ad? What is the best position in a magazine? In a newspaper?

6. What position would you want for a small ad offering a house for rent?

7. What is meant by layout? How does the layout man plan the appearance of an ad?

8. What is meant by balance in an ad? By eye direction?

9. What is the value of pictures in advertisements?

10. What limits the use of pictures in advertisements?

11. What kind of illustrations are best for newspapers?

12. How does an advertiser secure illustrations for his ads?

13. What is the purpose of the headline? What are the best types of headlines?

14. What is the value of color in advertising?

15. What limits the use of color in newspaper advertising? In direct-mail advertising? In magazine advertising?

16. What is meant by copy?

17. Should the copy be written before or after the layout is made?

18. What are the qualifications of a good copy writer?

19. What rules should be followed in writing copy?

Thought Problems

1. How can an advertiser determine whether it is worth-while to pay for preferred positions? For color?

2. Clip advertisements from current newspapers or magazines illustrating a good use and a poor use of each of the following: layout; illustration; color; headline; copy.

3. Prepare the copy and make the layout for the following advertisements to appear in newspapers:

(a) A new arrival of fashionable men's oxfords to be sold at $6.50. (Size: 2 columns by 9 inches.)

(b) Baseball equipment to appear in the early spring. (Size: one quarter page.)

(c) Fishing tackle and supplies to appear during the summer vacation. (Size: 27 column inches.)

(d) A clearance sale of ladies' winter coats, marked down from $45 to $22.50. (Size: not to exceed one-half page.)

(e) Electric fans. Ad to be prepared in advance and run during the first heat wave of summer. (Size: 2 columns by 6 inches.)

(f) A special sale of ladies' dresses, special value on a new purchase, to be sold at $17.50. (Size: one-quarter page, any shape.)

(g) A spring ad of seeds and garden supplies, to appear in a small town paper. (Size: not to exceed 28 column inches.)

4. Prepare direct-mail advertising for the following products:

(a) A leather handbag at $7.95.

(b) Real old-fashioned hickory-smoked Virginia hams, cured and offered for sale by a farmer in Virginia.

(c) Genuine Vermont maple syrup offered for sale by an association of producers.

(d) Saturday specials of a neighborhood grocery store.

5. What position in a daily newspaper would you want for an ad offering a cookbook for sale? What position would you want for an ad of golf clubs? For an ad of groceries?

Chapter 35

Business Ethics

Business ethics defined.—By business ethics is meant the application of the basic principles of right action to business relations; in other words, the application of the Golden Rule to business.

Improvement in ethical standards.—There have been times when the ethical standards of business were very low. For centuries traders were thought of as cheaters. It was supposed that in a trade one party had to cheat, or get the better of, the other party. As recently as 35 years ago, adulteration of goods was said to have been very common.

Business is now recognized as a thoroughly honorable vocation. It is now recognized that both parties can and usually do gain in a trade. It is only those transactions in which both parties do not gain that are to be condemned.

A great improvement in business ethics, particularly during the past quarter of a century, has taken place. Some of the evidences of an improvement in ethical standards are the high degree of honesty in advertising; the right of the buyer to return goods; the "customer is always right" attitude and the one-price policies followed by many retail stores; and the relatively small amount of adulteration in advertised and branded goods.

John Wanamaker—in the operation of his stores in Philadelphia and New York—was one of the leaders in improving the standards of business practice. His state-

ment in regard to ethics is therefore interesting. "The temptations of business are great, and unless a merchant has more than a creed or the ordinary groundwork of honesty and faithfulness, he may be caught by the sudden wind of plausible opportunity and tumble over the precipice and be ruined. . . . I am glad to stand up and say that religion is the only investment that pays the largest dividend possible to receive."

A great many business men are honest and conduct their businesses on high ethical planes. There are some, however, who are unscrupulous and dishonest and who try to take advantage of both their customers and their competitors. It is often very hard for honest men to meet such competition without resorting to dishonest practices, and many business men who really want to conduct their businesses along honest lines feel that they must be dishonest in order to stay in business. It is, for this reason, especially desirable that rules and agencies be established to restrain the dishonest and unscrupulous and force them to behave or quit business.

Need for rules and umpires.—Business needs rules just as much as football and baseball. Business ethics and codes of fair and unfair practices give a list of rules for fair and honest business conduct. Business needs umpires to enforce the rules just as do ball games. We are continually striving to introduce into business a spirit of sportsmanship. We are hoping to change the motto that "business is business," which is ordinarily understood to mean that anything is fair in business, to a feeling that business should be conducted according to the highest principles of truthfulness and honesty.

Agencies.—The work for higher ethical standards in business has been promoted by several different kinds of organizations. First, there are organizations of busi-

ness and professional men, such as trade associations, professional societies, chambers of commerce, advertising clubs, and service clubs, such as Rotary, Kiwanis, and Exchange. Second, there are the Better Business Bureaus. Third, there is the Federal Trade Commission, an independent commission of the national Government in Washington. These agencies, working under the supervision of the courts, may be called the umpires of business.

Codes of ethics.—The organizations of business and professional men carry on agitation and education for the promotion of better ethics. A common practice is for them to meet in conventions and draw up and adopt codes of ethics which set forth the practices which they consider ethical and those which they consider unethical. Although codes of ethics are often violated, they seem to do much good. Many people will follow them, and they afford the opportunity for publicity and call the attention of the men in the trade to the practices considered wrong. Public opinion in the trade can accomplish much. Control of business practices by the men in business is referred to as self-regulation.

As a rule, we think of ethics as setting a standard of conduct higher than that required by law. A man who obeys the law is a law-abiding man, it is true, but an ethical man does more. He lives up to standards of conduct higher than those contained in the law.

A danger of codes of ethics drawn up by men in a trade is that they will attempt to prohibit certain practices which may appear to them as unfair but which may be in the interest of the public.

The following is the code of ethics adopted by the Chamber of Commerce of the United States of America to regulate business conduct:

I. THE FOUNDATION of business is confidence, which springs from integrity, fair dealing, efficient service, and mutual benefit.

II. THE REWARD of business for service rendered is a fair profit plus a safe reserve, commensurate with risks involved and foresight exercised.

III. EQUITABLE CONSIDERATION is due in business alike to capital, management, employes, and the public.

IV. KNOWLEDGE—thorough and specific—and unceasing study of the facts and forces affecting a business enterprise are essential to a lasting individual success and to efficient service to the public.

V. PERMANENCY and continuity of service are basic aims of business, that knowledge gained may be fully utilized, confidence established and efficiency increased.

VI. OBLIGATIONS to itself and society prompt business unceasingly to strive toward continuity of operation, bettering conditions of employment, and increasing the efficiency and the opportunities of individual employes.

VII. CONTRACTS and undertakings, written or oral, are to be performed in letter and in spirit. Changed conditions do not justify their cancellation without mutual consent.

VIII. REPRESENTATION of goods and services should be truthfully made and scrupulously fulfilled.

IX. WASTE in any form,—of capital, labor, services, materials, or natural resources,—is intolerable and constant effort will be made toward its elimination.

X. EXCESSES of every nature,—inflation of credit, over-expansion, over-buying, over-stimulation of sales,—which create artificial conditions and produce crises and depressions are condemned.

XI. UNFAIR COMPETITION, embracing all acts characterized by bad faith, deception, fraud, or oppression, including commercial bribery, is wasteful, despicable, and a public wrong. Business will rely for its success on the excellence of its own service.

XII. CONTROVERSIES will, where possible, be adjusted by voluntary agreement or impartial arbitration.

XIII. CORPORATE FORMS do not absolve from or alter the moral obligations of individuals. Responsibilities will be as courageously and conscientously discharged by those acting in representative capacities as when acting for themselves.

XIV. LAWFUL COÖPERATION among business men and in useful business organizations in support of these principles of business conduct is commended.

XV. BUSINESS should render restrictive legislation unnecessary through so conducting itself as to deserve and inspire public confidence.

Better Business Bureaus.—Some fifty Better Business Bureaus have been organized in various cities throughout the country, with a national bureau in New York. They are organized and financed by the business men to prevent deceptive and fraudulent advertising and to fight fraudulent business schemes of all kinds. These bureaus try to work with business men and to correct false advertising and unethical practices by advice. Thus if a dealer advertises all-wool suits for $15 when the suits are not all wool, the bureau tries to induce him to correct his advertising. If he refuses, the bureau may have a warrant issued and prosecute him under the laws of the state.

The bureaus warn the people about fraudulent schemes and salesmen. Many types of fraudulent schemes, which take from the people hundreds of millions of dollars annually, are in use in the country. Among such schemes may be mentioned fake stock promotions, fake collection schemes, sales of goods alleged to have been smuggled into the country, and fake bankruptcy and fire sales. The bureaus prosecute many of the promotors of such schemes when they operate outside the law.

Statutes against false advertising.—A great many of the states have passed laws making false advertising illegal. The laws are often referred to as "Printers' Ink statutes" because the magazine *Printers' Ink* took the lead in fighting for such laws. Under the "model" statute which is in force in many states, any advertisement which contains a false statement is illegal, and the advertiser is liable for fine and imprisonment. This law places on the advertiser the responsibility of knowing that his advertising is truthful and contains no falsehoods.

The enforcement of this law is presumably the duty of the prosecuting attorneys in the various counties. As a matter of fact, these attorneys are often so busy with other duties that they have little time for watching advertisements for untruthful statements. For this reason, the Better Business Bureaus often take the lead in securing evidence and in providing lawyers to prosecute those advertisers who will not voluntarily reform.

Advertisers in the lead.—Advertisers have taken the lead in having laws passed making untruthful advertising illegal, and in establishing and supporting the Better Business Bureaus. Leading advertisers realize that if advertising is dishonest people will not believe it, and

it will lose its effectiveness. The truthful advertiser would suffer with the untruthful. Advertisers realize that "honesty is the best policy."

Federal Trade Commission.—The demand for better practices in business had become so strong by 1914 that Congress passed a law establishing the Federal Trade Commission. The Commission strives to prevent unfair practices and to bring about higher ethical standards in business. Its jurisdiction is limited to cases involving interstate commerce (the transportation of goods across state lines). Anyone may call a case of unfairness to the attention of the Commission. The Commission will investigate the case, and, if the facts warrant, a complaint will be issued. The accused then has an opportunity to present his side of the matter. If after trial the Commission feels that the accused is guilty of unfair competition, it orders him to cease and desist from such practices. Appeals from the decisions of the Commission may be made to the higher Federal courts.

Trade practice conferences.—The Trade Commission tries to prevent unfair practices by inducing business men to follow ethical practices voluntarily. The men in a trade often meet with a representative of the Commission, discuss the practices in their trade, and draw up codes of ethics or practices which they agree to observe. This code is submitted to the Commission, which endorses those parts condemning illegal practices. The Commission undertakes to enforce these rules against all persons, regardless of whether or not they were present at the meeting or agreed to abide by the code. These meetings are called trade practice conferences or submittals.

Unfair competition.—No exact legal definition has been given of unfair competition. Congress, in establishing the Trade Commission, merely stated *"that*

unfair methods of competition in commerce are hereby declared unlawful. The commission is hereby empowered and directed to prevent persons, partnerships, or corporations from using unfair methods of competition in commerce."

Unfair competition is dishonest, illegitimate, improper, inequitable, or unjust methods or practices used in competing for business. The Pan-American Trademark Conference defined it as *"every act or deed contrary to commercial good faith or to the normal and honorable development of industrial and business activities."*

Practices declared unfair.—Many practices have been declared unfair under the Federal Trade Commission Act and under the common law. Some of the more important unfair practices are: deception of customers by false statements; misbranding of goods; commercial bribery; resale price maintenance[1]; trade boycotts; price cutting to drive out competitors; price agreements among competitors; bribing employees of a competitor; enticing competitor's employees to break their contracts for purpose of injuring the competitor; misadjusting machines sold by competitors; destroying or removing a competitor's advertising; exclusive contracts under which the customer agrees not to handle the goods of other sellers; disclosing trade secrets acquired by employees; threats of patent suits made to frighten away customers; and use by monopolies of concealed subsidiaries which are represented as being independent.

Deception of buyers.—Business ethics and law have progressed to the point where we may say that any method of deceiving the buyers is unethical or unfair. The buyers may be deceived by false or misleading statements in advertisements or sales talks; by secret

[1] Several states have recently legalized this practice.

adulteration; by misbranding; by untruthful labels; by selling rebuilt machines as new machines; or by simulation of names or slogans. The old motto "let the buyer beware" has changed to "tell the truth and protect the buyer."

It is deceptive to advertise part silk hosiery as "silk"; to say that part wool blankets are all wool; to sell mahogany veneered furniture as "mahogany"; to sell cigars made in the United States of domestic tobacco as Havana cigars; to sell furniture made in Indiana as "Grand Rapids" furniture; to display coats made of muskrat fur as genuine sealskin coats; to advertise furs made from rabbit pelts as beaver; to say that an article is given free when it is necessary to buy another article to obtain the article advertised as "free"; to change the labels on goods and sell them as goods of other producers when done without the permission of the owner of the original labels; to advertise that the seller manufactures his own goods when such is not the case; and to sell soap as "Naphtha" when it contains only a small fraction of one per cent of naphtha. Many of these things are done, but they are unethical and most if not all of them are illegal.

The Winsted Hosiery Case, decided by the United States Supreme Court, shows how careful the seller must be in truthfully describing his goods. The Winsted Hosiery Company manufactured and sold underwear that it called "natural meriono," "gray wool," "Australian wool," or "natural worsted." None of the garments were all wool and some contained as little 10 per cent wool. The company defended the practice on the ground that the terms used were trade terms and did not lead the dealers to believe that they were buying all-wool garments. In other words they contended that the terms

had been in use so long that they no longer carried the normal meaning of the words and that they were understood by men in the trade to denote the kind or quality of garments which they were used to describe. The Supreme Court, however, did not agree with the company's contention. It held that the labels were false and that they deceived the buying public. The Court said: "*The fact that misrepresentation and misdescription have become so common in the knit underwear trade that most dealers no longer accept labels at their face value does not prevent their use being an unfair method of competition. A method inherently unfair does not cease to be unfair because those competed against have become aware of the wrongful practice.*"

To illustrate the simulation of names, suppose that Johnson has made and sold "Nutak" for years. Now suppose that Edwards enters the market with a similar product which he calls "Newtak." If Johnson can show that Edwards is deceiving the buyers, who think that they are buying "Nutak," he can be restrained under the law.

Commercial bribery.—Commercial bribery consists in giving gifts for the purpose of making sales to buyers who are acting as agents and who accept these gifts without the knowledge and consent of their employers. Small and inexpensive things like blotters, calendars, paperweights, and cigarettes are considered as advertising mediums or as ordinary courtesies and not as gifts.

Commercial bribery is unethical and unfair because the buyer may be influenced by the gifts and make purchases that are not in the interest of his employer. He may purchase goods of poorer quality or pay higher prices than he could obtain from other sellers. He is spending another's money and tries to profit at the expense of his principal. Commercial bribery increases the cost of sell-

ing and hence the cost of the goods to the consumers.

The seller may use goods or money as bribes. Goods are more frequently used for the reason that more buyers will accept goods than will accept money. The buyer who accepts money knows that he is dishonest, while the buyer who accepts goods or entertainment may persuade himself that the articles and entertainment are tokens of the seller's friendship and esteem. Gifts are often sent to the wives and children of purchasing agents.

The giving of gifts has been a very common practice. One company with eleven salesmen spent nearly $6,000 for Christmas presents for buyers.[2] In other cases gifts and entertainment cost as much as five per cent of sales. The practice is so common that it is hard to stop. The Federal Trade Commission has taken an active stand against commercial bribery. The National Association of Purchasing Agents has gone on record as opposed to it and objects to purchasing agents accepting gifts from salesmen. Some cases have been taken to court and declared illegal. In a recent case, a Federal court enjoined a varnish company from giving or offering to give gifts secretly to customers or prospective customers to influence their purchases without the knowledge and consent of their employers. In another case, a state court punished a clothing buyer for taking bribes from the manufacturers from whom he purchased clothing.

Bonuses to buyers' salesmen.—Some sellers make a practice of offering bonuses, prizes, or presents to the salesmen of their customers to induce the salesmen to push the sale of their goods. This influences the salesmen to push the sale of these products whether or not they are in the interest of the consumers or of their employers. Salesmen are working for their employers and

[2] *Printer's Ink*, Sept. 5, 1925.

not for the sellers from whom their employers purchase the goods. Merchants who allow their salesmen to accept bonuses from the makers of the goods thereby lose part of their control over their men; for this reason, the value of the practice is very doubtful. The practice is unfair if done without the knowledge and consent of the employers of the salesmen. The practice has been denounced by the Federal Trade Commission and by several trade organizations.

Prices.—Several practices relating to prices are unfair. Price agreements among competitors are, of course, unfair and illegal, regardless of the form they take.

Competition on prices is at the very center of the competitive system. Nevertheless, price cutting may be unfair under certain conditions. If one company sells below its cost of production for the purpose of putting a competitor out of business, the practice is held to lessen competition and hence to be unfair. For price cutting to be unfair, the seller must sell below his cost. Suppose that the Jones Company has a production cost of $1 per unit, and that the Smith Company has a cost of $1.25. If the Jones Company places its price at $1.10, it is not selling below cost but is nevertheless making it very hard for the Smith Company to compete. The Smith Company must sell at a loss, quit business, or reduce its costs. It is in a very unpleasant position. Nevertheless, under the competitive system, Jones may undersell Smith to get the business, and Smith is supposed to drop out if he is unable to reduce his costs.

Let us consider a different situation. Suppose that Brown & Company has a cost of $1.10 and that it is very much larger than the Jones Company, whom it wishes to put out of business. Brown & Company therefore places its price at 90¢. It knows that it will take a loss.

but it has more capital than the Jones Company and can afford to take a loss until the Jones Company is ruined and driven out of business. This is clearly unfair, unethical, and an illegal procedure. Competition on prices is perfectly fair, but when one seller sells below his own production cost with the object of driving competitors out of business, it is unfair.

Boycotts.—A boycott is a combination of people with the purpose of refusing to deal with a given person. Groups of wholesalers have been known to agree to refuse to buy from a manufacturer who sold to the retailers. Boycotts are unethical and illegal.

Exclusive contracts.—Sellers frequently offer the dealers exclusive agencies, the free lease of equipment, or special prices, rebates, or refunds if the dealers will agree not to handle the products of competing sellers. Such a practice is very likely to prevent competing sellers from securing outlets for their goods and so result in lessening competition. In such a case the practice is unfair.

Unfair competition under the NRA.—In 1933 Congress passed the National Industrial Recovery Act which was in force until it was declared unconstitutional by the Supreme Court in 1935. Under this Act some 700 trade groups or associations formulated codes of fair competition which were approved by the National Recovery Administration. These codes denounced many unfair practices, such as inaccurate advertising, misrepresentation of goods, the giving of free goods and secret allowances, disparagement of competitors' goods, full-line forcing, procuring trade secrets, promoting breach of contracts, unauthorized use of trademarks, unauthorized substitution of goods, and unreasonable cancellation of contracts. Most of these practices were already held to be unfair under the Federal Trade Commission Act.

The main provisions of these codes, however, had to do with establishing minimum wages and maximum hours for employees and with trying to limit competition and control prices by employers. In order to control prices, several codes attempted to control or limit production. Code provisions limiting competition and controlling supply and prices were *unfair* under the theory and law of competition as generally understood in the United States.

Conclusions.—Free competition has been limited by large or monopolistic companies and by agreements and understandings existing between competitors. Many European countries have allowed competition to be limited by agreements by "cartels" (a form of trade association). Many have advocated that the United States forsake its theory of free competition and adopt that of controlled, or regulated, monopoly. But there are many advantages to a system of open and free markets. Before we adopt a system of regulated monopoly, the author would like to see a sincere and aggressive attempt made to break up monopolies and enforce free competition. He feels that such an effort on the part of the national and state governments, backed up by a strong public opinion, will be successful, and that it will secure many advantages that cannot be secured under a system of industry controlled by either trade groups or government.

Chapter 35

Review Questions

1. What is meant by business ethics?

2. Is business conducted along more or less ethical lines than 25 years ago? What evidence can you cite to prove your answer?

3. Why does business need rules and umpires?

4. Name as many agencies as you can that are working for higher ethical standards in business.

5. What is meant by codes of ethics? Is there any danger in such codes?

6. What is meant by saying that ethical codes provide for higher standards of conduct than legal codes?

7. What are Better Business Bureaus? What do they do?

8. Who have taken the lead in organizing and supporting these bureaus?

9. What are the "model," or "Printers' Ink," statutes?

10. What is the Federal Trade Commission? How does it operate?

11. What are trade practice conferences?

12. What is unfair competition? Are methods of unfair competition illegal?

13. Name some practices that are held to constitute unfair competition.

14. What is meant by deceiving the buyers? Are all methods of deceiving unethical?

15. What was the defense and the decision in the Winsted Hosiery Case?

16. What is meant by simulation of names?

17. What is commercial bribery? Why is it unfair?

18. Is it fair for a manufacturer to offer bonuses to the merchant's salesmen for the sale of the former's products?

19. When is price cutting unfair?

20. What is a boycott?

21. What is meant by exclusive contracts? Why are they unfair?

22. What were the chief provisions of the NRA codes?

Thought Problems

1. The old rule was that the buyer should beware. The new rule is that the buyer is not to be fooled nor deceived.

How far should the courts go in protecting the buyers from their own ignorance and carelessness?

2. What is meant by the statement "business is business"?

3. What is meant by saying that "honesty is the best policy"?

4. Is it true that honest business men are often forced to use dishonest practices because of unfair competitors?

5. The Haywire Company manufactures furniture out of chestnut and gum wood which it covers with a thin coating of mahogany veneer. It advertises its product as mahogany. Is this fair?

6. The Eveless Company manufactures furniture of soft wood and then stains the surface to resemble walnut. It marks its furniture American Walnut, Black Walnut, Red Walnut, and so forth. Is this unfair?

7. The Coonskin Company advertises coats made of muskrat skins as Canadian Seal, Siberian Seal, and Hudson Bay Seal. Is this fair?

8. A company located in New York State makes cigars from domestic tobacco which it sells as Havana cigars. It claims that Havana is a trade name used to denote its type of cigars. How about it?

9. The NoKnock Knitting Mills Company shows a picture of a large factory on its stationery and on much of its advertising matter. It does not own or operate any mills. It is purely a selling company. Is it guilty of unethical or unfair competition?

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